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Shultz, in Mideast, Says Israeli Pullout 'Can Be Negotiated'

By John M. Goshko
Washington Post Service

VIENNA — George P. Shultz, the secretary of state, said Monday that reaching an agreement on withdrawal of Israeli forces from Lebanon was "a very doable job" and that he would use shuttle diplomacy or "whatever is necessary" to reach an accord.

Speaking aboard his plane en route here, Mr. Shultz said he had assurances from the various sides to the Arab-Israeli dispute that either an agreement on Lebanon or the wider objective of putting President Ronald Reagan's Middle East peace initiative back on track.

Mr. Shultz emphasized that he was prepared to stay in the region "as long as there is a chance to accomplish something." His scheduled for two weeks of travel through the region.

Mr. Shultz made it clear that his order of business would be to seek the prolonged stalemate over Israeli-Lebanese agreement that had opened the way for withdrawal of Syrian and Palestinian Liberation Organization forces from Lebanon.

In addition, Mr. Shultz was planning to explore ways to overcome the potentially fatal setback to Mr. Reagan's peace initiative two weeks ago by the collapse of talks between King Hussein of Jordan and Yasser Arafat, the PLO leader.

The Reagan initiative called for an end to the expanded peace talks on the future status of the Israeli-occupied West Bank and Gaza Strip. But Hussein said he did not come forward unless the U.S. gave him a mandate to negotiate with Israel on behalf of the Palestinian inhabitants of these territories.

Upon arriving here, Mr. Shultz immediately plunged into a lengthy



U.S. Secretary of State George P. Shultz, left, spoke to reporters Monday after his arrival at the Cairo airport on a Middle East tour. Next to him were Egypt's foreign minister, Kamal Hassan Ali, center, and the state minister for foreign affairs, Butros Ghali.

Socialist Victory Seen in Portugal; Ruling Social Democrats Concede

Compiled by Our Staff From Dispatches

LISBON — Portugal's ruling Social Democratic Party publicly conceded defeat Monday in the Portuguese general election and said it would respect a Socialist victory.

The Socialist Party of former Prime Minister Mario Soares, 58, emerged as the undisputed winner of the elections, but computer forecasts showed it would not get the overall parliamentary majority needed to rule alone.

"We will respect the victory of the Socialist Party, and it is up to the Socialists to take the initiative in forming a new government," the Social Democrats' joint leader, Henrique Nogueira Rodrigues, said on television.

The results represented a crushing defeat for the Social Democrats and their conservative partners after three years in power and opened the way for Mr. Soares to return to power.

Mr. Soares and the Socialists ran a minority government from the beginning of 1976 through the end of 1977, when they entered into a coalition with the conservative Christian Democrats that lasted about six months.

Twelve parties and two alliances fielded candidates in the Monday voting, the 10th national election since Portugal's 48-year-old dictatorship ended on April 25, 1974.

The election's 7.2 million voters were choosing the fourth-year parliament, or Assembly of the Republic, since the coup. The party that wins the most seats in the 250-member body will be asked by the president to form a new government.

President Antonio Ramalho Eanes, an army reserve general whose post is not at stake, dissolved parliament in January and called for new elections after the collapse of Prime Minister Francisco Pinto Balsemão's governing Democratic Alliance, a coalition of Social Democrats, Christian Democrats and monarchists.

Greece Cancels Meeting With U.S. Official Over His Remarks on Turkey

By Marvyn Howe
New York Times Service

ATHENS — Prime Minister Andreas Papandreu canceled Monday a meeting with the U.S. assistant secretary of state, Richard R. Burt, following Mr. Burt's reported declarations of support for Turkey, and the U.S. aide subsequently postponed his visit to Greece indefinitely.

Speaking on television later Monday, Mr. Papandreu warned that negotiations on the future of U.S. bases in Greece could not continue without an agreement on the duration of the second and a U.S. commitment to preserve the balance of forces in the region.

Mr. Papandreu did not mention the Burt incident in his television declaration, but it was clearly timed to show Washington that Greece stood firm on the question of a balance of forces with Turkey and a timetable for the base agreement.

In a brief message to the Greek people that was essentially aimed at the United States, the prime minister stressed: "It is the Greek government's inalienable right to suspend some or the entire activities of the United States bases where the nation's vital interests call for it."

Speaking in Ankara on Sunday, the Greek government reacted swiftly to the reported statements, announcing Monday morning that Mr. Burt's meetings with the prime minister and the undersecretaries of foreign affairs and defense had been canceled.

A spokesman for the U.S. Embassy said Monday: "In view of the decision taken by the Greek government, Mr. Burt will not be coming to Greece at this time."

A Greek spokesman had said Sunday: "If the information of the foreign news agencies about the statements of Mr. Burt in Ankara is correct, we wonder what is the purpose of Mr. Burt's visit to Athens."

Mr. Burt had been expected to arrive in Athens on Monday evening and meet with Mr. Papandreu on Tuesday.

Mr. Burt's comments in Ankara were seen in Greek official circles as an attempt by Washington to put additional pressure on the talks on U.S. bases, particularly in relation to Athens's demand for assurances that the balance of forces be maintained.

In his television statement, Mr. Papandreu said that the U.S. negotiator in the base talks, Reginald Bartholomew, "does not appear to accept either the timetable nor the preservation of the military



Richard R. Burt

Glemp Warns on Protests

Poles Cautioned Against Violence During May Day

By John Kifner
New York Times Service

WARSAW — Poland's Roman Catholic prime minister warned of possible trouble in anti-government demonstrations called by the Solidarity underground for May 1.

"It is our duty to warn you against a danger, for whenever manifestations take place, events not intended by the organizers may occur," Cardinal Jozef Glemp said in a sermon Sunday night that was reported in a pre-government Catholic newspaper and distributed by the state news agency Monday.

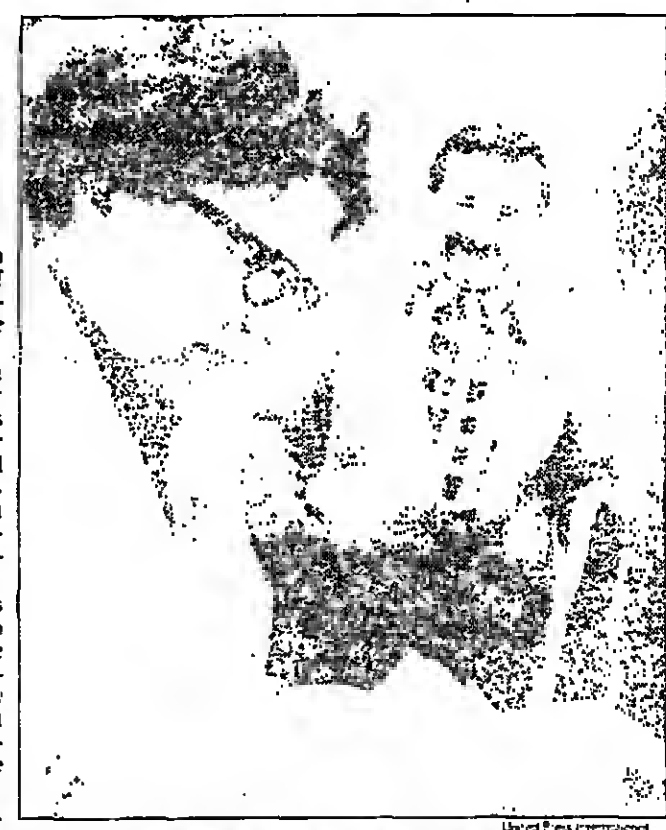
Cardinal Glemp's remarks appeared to deal a sharp blow to Solidarity supporters, who have linked their movement to the powerful symbols of the church. They were made as the government stepped up its propaganda campaign aimed at discouraging the demonstrations.

Since May 1 falls on Sunday, churches would be a natural place for people to gather before a march. Many churches here are still identified with Solidarity, the outlawed labor federation, and some maintain more or less permanent displays of support.

An underground leaflet circulating here Monday urged people to go to Mass in the area of Castle Square at the edge of Warsaw's Old Town and then be ready to go to an independent May Day march. There are a number of nearby churches, including St. Anne's, where a huge floral cross in a courtyard has become a symbol of resistance.

"The worker's holiday, taken from us by the self-styled people's authorities, has again become the holiday of Poland's working people fighting for bread, justice and freedom," the underground leaflet said.

Cardinal Glemp's remarks, delivered in the agricultural town of Gniezno, near Poznan, a traditional seat of Polish primates, were characteristically oblique. He did not exactly order Catholics to stay away from demonstrations, but he certainly expressed lack of enthusiasm for them.



Lech Walesa talking to a doctor at a Gdansk clinic where he was examined on Monday before his return to work.

Hitler Diaries: The Doubt Grows

English Expert Now Uncertain of Authenticity

Impaled by Our Staff From Dispatches

LAMBURG — With doubts lining over the authenticity of diaries attributed to Adolf Hitler, an English expert on the Nazi leader's life said Monday he now doubts that they are genuine.

Speaking at a news conference here, the West German magazine Stern, which is publishing extracts of the diaries, Hugh Trevor-Roper, now Lord Dacre, said the magazine refused to disclose the



Gert Heilmann, the West German journalist who claims to have discovered Hitler's diaries, presented some of the documents at a press conference in Hamburg on Monday.

copies look for manipulation of any in the diaries. Page 2.

... of the man who allegedly aged the diaries from the cage of a plane in what is now Germany and hid them in a...

Mr. Trevor-Roper said his doubts were based on the inability of the magazine to prove that the diaries came from an aircraft that shed while carrying Hitler's personal papers out of Berlin at the end of World War II.

The argument about the history of the documents, which would be conclusive is now rather hazy and we have to rely on the text, he said.

Mr. Trevor-Roper's 1947 book, "The Last Days of Hitler," is considered a classic work on the last days of Hitler's Third Reich.

Mr. Trevor-Roper is a director of Times Newspapers, which owns the Times of London and the Sunday Times, which published the extracts from the diaries. In Saturday edition of the Times wrote an article explaining why he doubted the diaries were authentic.

... officials, who bought the diaries rights with The Sunday Times, began publishing extracts in the diaries on Monday.

A London, a spokesman for the Times Newspapers said its parent company, Rupert Murdoch's News Corporation, was paying \$400,000 to publish the diary excerpts in Britain and the Commonwealth.

Mr. Trevor-Roper said: "The magazine would not publish any more until the documents were authenticated."

David English, editor-in-chief of the London Daily Mail, said on Sunday, said his papers were offered the diaries by a man and were shown some extracts but rejected them.

Despite Stern's assurances, we are very suspicious about their authenticity and we therefore said any offer would be conditional on Stern indemnifying us against the possibility that the diaries were forged." Sir David said.

... were unable to make such a commitment and therefore we rejected the offer.

Koch, Stern's editor-in-chief, wrote in a preface to the first edition that handwriting experts had found them authentic.

Soviet Union, Egypt Raise Their Oil Prices

By Bob Hagerty
International Herald Tribune

LONDON — Egypt and the Soviet Union are nudging their oil prices upward, in line with the worldwide trend.

Traders reported Monday that the Soviet Union plans an increase of 50 cents a barrel for its Urals crude. Egypt announced a 50-cent increase Sunday.

Both countries are outside the Organization of Petroleum Exporting Countries and export relatively small amounts of crude. Their pricing decisions, however, send a signal of worldwide demand.

Earlier this year, both cut prices, adding to pressure on OPEC to lower its prices in the face of a glutted market. In mid-March, OPEC finally agreed to a reduction of about 15 percent. Since then, oil prices outside OPEC's direct influence have edged up nervously.

"Fears of an imminent price collapse have passed," Charles Maxwell, oil analyst at the New York stock exchange of Citrus J. Lawrence Inc., said Monday.

Despite the firm trend, some analysts say prices are likely to fall again later this year. "A few weeks of success in bolstering the market do not amount to a pricing victory," Petroleum Intelligence Weekly said Monday.

The industry newsletter said marketers seem convinced that current prices will hold through early summer but that "few are willing to bet on long-term prospects yet."

Tony Parisi, an analyst for the newsletter in London, said he believed OPEC's March price cut was not deep enough to clear the market of excess supplies.

Analysts who expect further price cutting this year noted that some OPEC members — notably Nigeria, Indonesia and Venezuela — remain short of cash to repay debts. That could make it tempting for them to offer discounts or sell beyond their OPEC-set output limits.

West Bank Illness Linked to Anxiety

The Associated Press

WASHINGTON — A recent epidemic in which 943 residents of the Israeli-held West Bank became ill was induced by anxiety, two U.S. doctors who visited the area said Monday.

Drs. Philip Landrigan and Bess Miller, who were sent to the West Bank at the request of the Israeli Health Ministry, said the initial outbreak of the disease in the community of Arabah was triggered either by psychological factors or possibly by the smell of escaping hydrogen sulfide from an underground mine. In the absence of any other plausible explanation, "we conclude that this epidemic of acute illness was induced by anxiety," the doctors said.

Its subsequent spread was the result of psychological factors, the study said, and may have been aggravated by newspaper and radio reports of the illness.

Roughly two-thirds of the victims were schoolgirls.

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Coloreds Leave S. Africa Group

Reuters

CAPE TOWN — The Labor Party, the main political party of South Africa's colored (mixed-race) people, has resigned from a coalition of nonwhite groups opposed to apartheid, a spokesman said Monday.

It voted during the weekend to resign from the Black Alliance three months after having been suspended from the coalition. The suspension followed the party's decision to take part in proposed government reforms aimed at providing limited power-sharing for the country's coloreds and Indians while excluding blacks, who make up more than 70 percent of the population.

The Rev. Alan Hendrickse, the Labor Party's leader, said the party had decided that while it still believed in unity among nonwhites, it disagreed over strategy with the other members of the coalition.

WORLD BRIEFS

Skeptics Look for Manipulation of History in Hitler Diaries

By John Vinocur
New York Times Service

HAMBURG — If the so-called diaries of Hitler turn out to be forgeries, the assumption of a number of experts is that they were concocted in Eastern Europe for use as a tool in trying to undermine West Germany's relationship with its allies.

The first glimpse of the contents of the diaries, published by Stern magazine here and by The Sunday Times of London, present no clear political orientation. But as skepticism about them grows, the fragmentary extracts made public so far have furnished a basis for the analysis who will be looking for a possible manipulation of history as the volumes are disclosed.

They say a central thesis that might be developed in such a manipulation by the East German and Soviet secret services would be that the West turned down opportunities to end World War II, prolonged the suffering it created and holds the historical responsibility for the eventual division of Germany.

"If I were faking such a diary for the East," a West German official said, "I'd want Hitler to be a bore, a monster and a fool. But I'd like England and America to have given him the chance to make things worse."

The official, who asked that his name not be used, was one of many West Germans who scorned the idea that the documents were real. Among them were Helmut Schmidt, the former chancellor, who told a small group here last night, "I just can't believe it's true."

Because the diaries are said to contain 60 volumes — a formidable task for a forger working on his own — all German commentary doubting or rejecting their authenticity has centered on conjecture that they were produced by what Werner Maser, a West German historian, has called an East German "counterfeiting workshop." Said to be located in Potsdam, the workshop is described by the historian as specializing in the manufacture of phony Hitler letters, drawings and notes that provide a continuing source of foreign currency for East Germany.

But it is the potential political aspects of the diaries, if they are proven bogus, that seem much more important to other experts than any possible income, even if it is in the millions of dollars. "The East has got better ways of earning hard currency," said Gerhard Weinberg of the University of North Carolina, a historian involved in the process of attempting to authenticate the diaries.

Mr. Weinberg, who talked to reporters here Monday after suggesting earlier he felt the documents might be authentic, and Karl-Dietrich Bracher of Bonn University, a respected historian who deals with the period, have stressed that the diaries could have a strong effect on young Germans who are re-evaluating their relationship to their country's past. Some German historians, of both left and right, have placed increasing blame on the West for actions throughout the war and at its conclusion that led to Germany's division.

Mr. Bracher, who rejects the notion that the diaries could be real, said last week that he feared an attempt to manipulate German history at a politically sensitive moment. The reference suggested, the professor felt, that at a time of intense debate about new NATO missiles there was a growing audience here for history unfavorable to the United States and Britain.

The nuclear debate has spawned arguments by some of the missile's opponents that West Germany is a vassal of the United States and that deployment of the missiles, scheduled for the end of the year, hinders West Germany against its will to a position of confrontation with the Soviet Union.

The two fragments from the diaries that have been found particularly intriguing in discussion of a possible manipulation were a rather favorable reference to Neville Chamberlain, the British prime minister who agreed to hand over parts of Czechoslovakia to Hitler, and another to Rudolf Hess, the Hitler deputy who flew to Britain in 1941.

Of Chamberlain, Hitler purportedly wrote, "He nearly outsmarted me, this smooth Englishman."

A diplomat, discussing the passage, said it might be an attempt to place a man historically regarded as an appeaser in a better light. The diplomat said the test in a further examination of the diaries would be to see if Chamberlain were portrayed as a patriot, a man of peace who is repudiated by warmongers in his own country.

Mr. Weinberg said he was particularly interested in

the passage concerning Hess. The edition of Stern appearing Monday reported that the Hess flight to England would be a part of the first extended excerpts from the diary, which is scheduled to be printed here next week. The magazine said Hitler knew of Hess's plan in 1939.

The Hess case remains mysterious, but a manipulated version, without providing a full explanation, might suggest that the British were not interested in any negotiated end to the war. Hess has maintained he was on a peace mission to Britain.

Another brief look at the tone of the diaries is contained in a reference to Stalin. "How on earth does Stalin manage it?" Hitler supposedly wrote, referring to Soviet resistance seven months after the initial Nazi invasion of Russia. Analysis looking for a political message would not expect to find constant admiration for Stalin developed in the diaries, but rather a current of great respect for the Soviet Union, its military power and a growing sense of its invincibility.

The diplomat believed that the diaries, even if they are not authenticated, require no major revelations to affect discussion about German history, within West Germany, in a manner that could favor the Soviet bloc. For success, it would be sufficient, he said, to bring to the surface vague notions of Germany's victimization by Britain and the United States.

"If you influence confused talk in a bar, over the years, well, that's served your purpose," he said.

Sihanouk Seeks French Support

PARIS (Reuters) — Prince Sihanouk, the former ruler of Cambodia, said Monday that he hoped recent border clashes between China and Vietnam would develop into a limited war that would stem Vietnamese aggression in Southeast Asia.

The prince, who heads a guerrilla coalition fighting Vietnamese troops in Cambodia, said: "We do not want a major conflict. But the only thing that will persuade Hanoi to negotiate would be another military defeat by China."

Prince Sihanouk will hold talks with President Francois Mitterrand on Wednesday. He said he would press France to be more active in helping to secure a Vietnamese withdrawal from Cambodia. He added that he will tell Mr. Mitterrand that both China and the guerrilla coalition want France to be "less indulgent" toward Vietnam. There are about 300,000 Vietnamese troops in Cambodia in support of the regime of Heng Samrin, which toppled the former Khmer Rouge government in Phnom Penh in 1979 with Hanoi's help.

Mitterrand Asks Respect for State

DUNKERQUE, France (Reuters) — President Francois Mitterrand of France called on protesters Monday to respect the authority of the state, which he said he intended to uphold.

He made the call as opposition commentators predicted unrest over government policies in coming months. Commenting on a doctors' strike and protest actions by students and farmers, Mr. Mitterrand said that no conflict was insoluble as long as it did not constitute "rebellion against the state."

"National solidarity cannot survive without the authority of the state, which I intend to be respected," he said.

A month-old strike by staff in teaching hospitals is turning into a major test for the government. Thousands of registrars and house surgeons, who are protesting health service reforms, won the backing of the heads of the university hospitals over the weekend and public hospital staff appeared set to join them this week. All but urgent operations are being postponed and thousands of beds are empty in the teaching hospitals.

Psychiatrists Back Probe of Soviet

GENEVA (AP) — A group of Western psychiatrists has backed plans by French doctors to visit the Soviet Union to investigate reports that political dissidents are held as mental cases.

But Catherine Kuhn, president of the Swiss section of the Paris-based International Association on the Political Abuse of Psychiatry, said she did not expect the Russians to agree to a visit by the French group.

The association's two-day meeting at Geneva was convened in preparation for the July 11-16 congress of the World Psychiatric Association in Vienna. A communiqué said the international association knew of about 500 documented cases of political use of psychiatry in the Soviet Union since 1962. It said the total number of cases ran into the thousands.

Gulf States to Meet Again on Slick

KUWAIT (Reuters) — The eight states of the Regional Organization for the Protection of the Marine Environment — Iran, Iraq, Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman — are expected to attend talks here Tuesday on ending the pollution caused by the giant oil slick in the Gulf, the conference chairman, Ali Shams Ardekani, said Monday.

Two previous sessions foundered amid political wrangling between Iran and Iraq, which have been at war for 31 months. Mr. Shams, the Iranian ambassador to Kuwait, said he hoped that the ministers could agree at least on action to clear oil from the waterway outside the war zone.

Gulf diplomats said the outlook for a political accord on the slick was not good and that a coordinated response to dealing with the slick outside the war zone might be the most that could emerge.

Iceland Faces Political Deadlock

REYKJAVIK (Reuters) — Iceland faced political deadlock Monday with no party emerging with a clear majority from elections Saturday. The incumbent prime minister, Gunnar Thoroddsen, said it was possible that new elections might have to be held this summer.

But Mr. Thoroddsen, 71, who is expected to retire from politics soon, said that he opposed fresh elections because of the country's economic plight. Mr. Thoroddsen, who broke with his own Independence Party and headed the outgoing government coalition of mainly centrists and Communists, met with President Vigdís Finnbogadóttir Monday morning. He said later that he had gone not to resign but to give her a review of the political situation.

The deadlock was caused in part by the appearance of two new parties, the Social Democratic Alliance and the Feminist Women's List, which together hold seven out of 60 seats in the Althing, or parliament, making formation of a coalition difficult.

Sorsa to Form Finnish Coalition

HELSINKI (Reuters) — President Mauno Koivisto of Finland Monday asked the Social Democratic prime minister, Kalevi Sorsa, to form a new government following general elections last month.

Political leaders have said the new government will almost certainly omit the People's Democratic League (Communists and Socialists), which has been a part of Finnish coalitions for most of the past 17 years. The league was a big loser in the elections.

Mr. Sorsa, who heads a caretaker government, has been negotiating with the centrist parties, the Swedish People's Party, the Rural Party as well as his own party. He said Monday that those groupings, with 123 of the 200 seats in parliament, would form a government.

Papandreou Police Official Is Slain in India

NEW DELHI (AP) — A senior police official and an 11-year-old boy were shot to death Monday outside the Golden Temple in Amritsar, the holiest of Sikh shrines, where the officer had gone to pray, the authorities said.

The assassin, described as a Sikh male in his mid-20s, fired from close range and fled through a crowded hazaar, the police said. The slain official was a deputy inspector general of police from nearby Jullundur. No one claimed responsibility for the shooting. Harmandir Singh Longowal, head of the militant Sikh political party, Akali Dal, condemned it.

Police reinforcements moved into the temple area, increasing tension in the principal Sikh city 250 miles (400 kilometers) northeast of here, the United News of India said. Army units in Amritsar were placed on standby alert. Sikh fundamentalists have been protesting Prime Minister Indira Gandhi's refusal to accept their demands for autonomy.

Andropov Reassures Pupil in U.S.

MOSCOW (NYT) — The Kremlin made public Monday the text of a letter from Yuri V. Andropov to a fifth-grade pupil in Manchester, Maine, in which the Soviet leader renewed pledges that the Soviet Union would like to have a relationship of peace with the United States.

The Soviet leader said that the schoolgirl, Samantha Smith, had asked whether the Soviet Union was ready to do something to prevent nuclear war. He replied: "Yes, Samantha, we in the Soviet Union are endeavoring and doing everything so that there will be no war between our two countries, so that there will be no war at all on Earth."

Mr. Andropov's letter appeared to be part of a broader effort to persuade Americans that the Soviet Union was a bastion of peace and good will toward the United States.

For the Record

RANGOON, Burma (UPI) — Burmese government troops and police destroyed 8,000 acres (3,237 hectares) of opium poppy plantations in Shan state in the Golden Triangle drug-producing region, narcotics officials said Monday.

MOSCOW (Reuters) — A British Foreign Office junior minister, Malcolm Rifkin, held talks here Monday aimed at improving British-Soviet relations strained by recent expulsions and spying allegations.

Sinowatz Is Selected To Succeed Kreisky

By James M. Markham
New York Times Service

VIENNA — The Austrian Socialist Party Monday designated the country's education minister to succeed Chancellor Bruno Kreisky after the veteran politician announced Sunday night that he was resigning.

A brief meeting of the party leadership ratified Mr. Kreisky's hand-picked successor, Education Minister Fred Sinowatz, 54, as chancellor-designate, with a mandate to form a coalition government.

On Sunday night, after the Socialists lost the parliamentary majority they had held since 1971, Mr. Kreisky stunned the country by declaring that because of what he called a defeat he was resigning.

Mr. Kreisky, 72, who was expected to submit his resignation formally to President Rudolf Kirchschläger Tuesday, will remain as party chairman until a special Socialist congress in the autumn. This interval will evidently give Mr. Sinowatz, who held the title of deputy chancellor in the outgoing government, time to consolidate his position.

Despite their loss of five seats Sunday, the Socialists remain the largest single party in the 183-member Nationalrat, or parliament, with 90 seats. "They are expected to try to forge a coalition with the small rightist Freedom Party, which won 12 seats."

Mr. Kreisky, who is a member of a four-man Socialist coalition negotiating terms, appears eager to exclude the opposition People's Party, which won 81 seats, from a share of power. But most politicians predicted prolonged and fluctuating horse-trading before a coalition is put together.

It was just this prospect of tedious coalition haggling that appeared to have persuaded Mr. Kreisky, who suffers from a kidney condition, to step aside, ending 13 years as head of government.

Before Sunday's vote, Mr. Kreisky had repeatedly warned that he would take such a step if his party fell short of a majority, but few politicians believed he would abandon power so trenchantly and so swiftly.

"An era is at an end," pronounced the conservative daily Die Presse, showing the chancellor in a cartoon slumped over an election urn, a bunch of feathers in his hand. A plucked bird labeled "absolute majority" flutters out of reach.

Politicians and journalists cited a number of reasons for the Socialist setback, including an economy stuck in recession, new and unpopular taxes which the Kreisky government had promised to impose and controversy over a modern and costly Vienna conference center that was criticized as extravagant.

The exact impact of Mr. Kreisky's falling health and his pre-election threats to resign were difficult to gauge. But, having made himself a central issue in the campaign, the chancellor evidently felt that he had no choice but to step down.

If Mr. Sinowatz succeeds in putting together a coalition with the Freedom Party, he is expected to make few major changes, though some deficit-cutting measures are viewed as inevitable.

A portly and respected figure, Mr. Sinowatz is something of a populist and a standardbearer of the



Fred Sinowatz

Socialists' left wing, which is exceedingly moderate by West European standards. With little experience in foreign affairs, he is likely to concentrate on domestic matters.

Some politically astute Austrians are predicting that, without Mr. Kreisky, the country will become "a second Switzerland," with an extremely low profile in international questions. The next chancellor is unlikely to make the kind of bold Middle Eastern initiatives that characterized Mr. Kreisky's reign.

Rather than worrying about the fate of the Palestinians, the next Austrian government, according to many in Vienna, is likely to concentrate on reviving the economy and, in foreign matters, on strengthening its European ties.

Storms Hit Bangladesh

UNITED PRESS INTERNATIONAL
DHAKA, Pakistan — Fierce storms that spawned at least one tornado swept parts of Bangladesh for a second day Monday, killing 30 persons, injuring hundreds and causing widespread damage, officials said.

Canada's Opposition Conservatives Are Divided on Choice of Leader

By Stanley Meisler
Los Angeles Times Service

TORONTO — With a decision due in early June, the campaign for leadership of Canada's Progressive Conservative Party has become confused by a growing feeling that the front-runners will lose in the end and that the main contender is not in the race.

The candidates are scurrying across the country trying to influence the selection of 3,000 delegates to the party's national convention in Ottawa that begins June 8. The tactics have been rough enough for the front-runners, the former prime minister, Joe Clark, and a Quebec businessman, Brian Mulroney, to accuse each other of stacking delegate selection meetings with youngsters and winos.

According to the latest Gallup survey, the Progressive Conservatives, now in opposition, would win 50 percent of the popular vote in a general election and take a majority of the seats in the House of Commons.

The problem with these polls is that they reflect mainly the unpopularity of Prime Minister Pierre Elliott Trudeau. But he is expected to resign before the next election, which must be held by 1985, and allow his Liberal Party to choose a new leader. Many Progressive Conservatives therefore insist that their party must shake off its complacency and choose an established voice, better as its leader.

One Progressive Conservative politician of demonstrated popularity is Premier William Davis of Ontario, a province that has a third of Canada's population and is the decisive battleground in federal elections. Mr. Davis, however, has taken to the sidelines in this campaign, still making up his mind whether to enter the race.

According to most estimates, Mr. Clark and Mr. Mulroney have the largest number of delegates, but each has a serious drawback.

The convention was called, after all, because the leadership of Mr. Clark was rejected by a third of the delegates on a secret ballot at the party's last national meeting in January. If the party were to nominate him again, it would be in the strange position of choosing a leader that it had seemed to reject only a few months ago.

Mr. Mulroney, on the other hand, is a businessman with no previous political experience beyond a losing attempt to win the party leadership seven years ago. Some party members are uncomfortable with a political outsider who has never been tested either in a regular electoral campaign or in a legislature.

Many political analysts believe that both Mr. Clark, 43, and Mr. Mulroney, 44, will fail to win a majority of votes on the first ballot and will not improve much after that. In that case, the candidate in third or fourth place may have the best chance of winning the leadership.

That is what happened in 1976,

when Mr. Clark was selected. An unheralded member of Parliament from Alberta, he placed third on the first ballot but went on to a slim majority victory on the fourth. He was so little known in Canada that the Toronto Star headlined the news of his victory with the question, "Joe Who?"

At the moment, John Crosbie, 52, a wealthy Newfoundland lawyer and a former minister of finance, seems to have settled into third place.

Other leading contenders include David Crombie, a former cabinet member and mayor of Toronto; Michael Wilson, also a former minister; and Peter Cockington, an Alberta businessman who owns the Edmonton Oilers of the National Hockey League. In all, 13 Progressive Conservatives have announced their candidacies.

The prospect of either Ontario's Mr. Davis or Mr. Crosbie raises the issue of the French language. Unlike Mr. Clark and Mr. Mulroney, neither of the other two speaks French.

But sentiment for separation seems to have waned in Quebec. As a result, Progressive Conservatives, who usually get very few votes in Quebec anyway, can now conceive of naming a leader who does not speak French.

EC Opposes New Curb On Trade With Soviet

THE ASSOCIATED PRESS
LUXEMBOURG — The European Community said Monday that it would oppose any new unilateral moves by the Reagan administration that would restrict European sales of high technology to the Soviet Union.

Foreign ministry officials from the 10 Common Market countries, meeting here, instructed their representative in Washington to inform the United States that they opposed tightening of the U.S. Export Administration Act, an EC official said.

The official, who briefed reporters on the meeting on the condition that he not be identified, said that the U.S. proposal could restrict the types of products foreign companies sell to the Soviet Union.

He said that Sir Michael Butler, Britain's ambassador to the EC, had suggested that a protest be made to Washington. West German and French representatives also condemned the Reagan administration proposals, he said.

"Britain said this is not acceptable and we should rub it in, and they agreed to rub it in," the official said. "It's the same story as the pipeline issue."

Last year, in a dispute that strained U.S. relations with its NATO allies, President Ronald Reagan has barred European firms from selling the Russians pipeline equipment made with U.S. technology. The administration dropped the ban in November after the Europeans agreed to study coordination of East-West trade policy.

NATO countries have a long-standing agreement to restrict transfer of military technology to the Soviet Union, but recent Reagan administration efforts to get consensus on tighter rules have been unsuccessful.

The issue is expected to arise next month at the Western economic summit in Williamsburg, Virginia, with Mr. Reagan pressing for more curbs.

With preparations for that session now underway, "it's important to keep the pressure on the administration," a British diplomat said.

"The next three or four weeks are crucial."

In Brussels on Monday, Richard D. DeLauer, the U.S. undersecretary of defense for research and engineering, said that the transfer of

Papandreou Bars Meeting

(Continued from Page 1)

balance in the Aegean, and therefore there is no meaning in continuing the negotiations so long as the American side insists on its refusal.

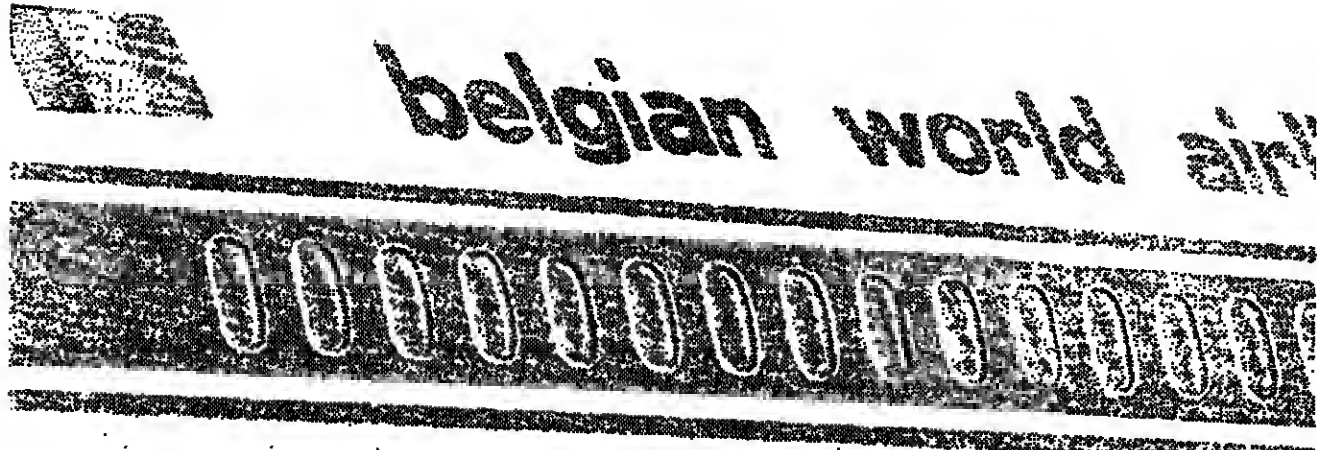
He defined the two basic conditions for the continuation of talks as:

"First, the duration of the new agreement on the Aegean, which, as I have repeatedly stressed, should include a terminal date, that is a timetable for the expiring of the agreement."

"Second, a contractual commitment from the American side ensuring the balance of forces in our region, a prerequisite of vital significance for our country's security."

Greek political observers noted that while Mr. Papandreou remained adamant on the setting of a terminal date for the agreement, he did not insist on a date for removal of the bases, as the Socialists have demanded in the past.

In a rare meeting with foreign journalists earlier Monday, a government spokesman declared that the current phase of the base negotiations was over and that the Greek negotiator, Yannis Kapsis, had submitted a note containing the two points to the U.S. negotiator, Mr. Bartholomew, who is to leave Tuesday for Washington.



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Glenn Banks on Image in Presidential Race

But Some Democrats Are Uneasy About His Aloofness From Party

By Robert Shogan

Los Angeles Times Service

NEW CONCORD, Ohio — John Glenn left his home in New Concord, Ohio, last week after announcing his candidacy for the Democratic presidential nomination. The Ohio senator took a sign presented by one of his admirers.

In hand-printed letters, the card read: "LENN SPEAKS LOUDER THAN WORDS." The new candidate and his aides were delighted with the epigram underlined in the distinction of his campaign.

It is not that Mr. Glenn cannot ride the vocabulary of presidential politics; he has distributed a page compendium of his views on major national concerns.

But there is a fundamental enigma, because his relative aloofness from the traditional demands and pressures of the Democratic Party leaves some party officials and activists cold.

The once-boyish astronaut is 61. Remembering the specifics of Mr. Glenn's accomplishments is blurred with time; some think was the first man on the moon, the first American in space, instead of the first American in orbit.

"Crowds react to him," said Richard Murphy, political director of a union of service employees. "They want his autograph. He has a special that nobody else has."

Of course, issues are important, as Mr. Glenn agreed during a conversation on his chartered jet as he headed out on a six-day tour of California, Texas, Arkansas and Iowa. The positions he has staked out so far place him by and large in the middle of the national Democratic Party's mainstream.

On military policy, he opposes the MX missile and advocates a freeze on nuclear weapons along with a program for control and reduction of conventional as well as nuclear weapons. On the economic front, he wants to shrink the projected federal budget deficits by deferring this year's scheduled income tax cut and repealing tax indexing. Along with other Democratic candidates, he puts great emphasis on the needs of federal involvement in educating young people and retraining unemployed workers.

And, as his campaign develops, Mr. Glenn plans to add more details to what he describes as his across-the-board, common-sense approach to the nation's problems.

But through all that, Mr. Glenn believes there is a more fundamental and more personal force at work in presidential elections. The magic word is trust, he said. The actual differences between candidates are usually not so stark. Most of our elections are very close. Whether it is New Con-

cord or New York, it usually comes down to a matter of trust.

One reason voters should trust him, Mr. Glenn contends, is that he avoids some of the expansive promises made by other candidates.

"If I go out and promise the end of the world's troubles with a single phone call, that'd get me a big hurrah and get me the support of a particular group," he said. "But it diminishes the bottom line—whether people will trust in you or not."

Mr. Glenn's choice of New Concord, the small town in which he was reared, as the site of the announcement of his candidacy was intended in part to point out the personal values that are likely to inspire voter trust.

The ceremonies in the high school gym here included a benediction and a pledge of allegiance to the American flag. Mr. Glenn reminisced about his boyhood, his mother and his father and talked about hard work and education, compassion and patriotism. But this kind of talk can be politically dangerous, too, because it reminds some Democrats too much of Jimmy Carter.

There have been complaints that Mr. Glenn does not confer often enough with local party leaders and activists.

Some union leaders do not like the fact that he voted against a bill that would have eased restrictions against picketing on construction sites. Jewish leaders are troubled by his 1979 vote in favor of selling F-15s to Saudi Arabia and by remarks he was reported to have made about bringing the Palestine Liberation Organization into Middle East peace negotiations.

But members in both groups like other aspects of Mr. Glenn's record and are impressed by polls that testify to his broad-based political appeal.

"Labor wants to endorse a friend," said Mr. Murphy, who leans to Mr. Mondale because of his longtime pro-labor record. "But we want to endorse a friend who can win."

As for the Jewish leaders, Mr. Glenn is set to mollify them by saying that he opposes negotiations with the PLO unless the Palestinian group recognizes Israel's right to exist. And at least some Jews appear willing to accept the idea that Mr. Glenn will not always vote the way they want him to.

28 Held at U.K. Rally Against Vivisection
United Press International
LONDON — Twenty-eight persons were arrested and several protesters and five police officers were injured in scuffles after bricks and smoke bombs were thrown during an anti-vivisection rally in Carshalton, Surrey.

Police moved in Sunday after marchers reportedly tried to tear down barricades to get into the British Industrial Biological Research Association and MRC Toxicology Laboratories. The protest was part of a World Day for Laboratory Animals, which also included rallies at primate research centers in Davis, California; Atlanta; Southboro, Massachusetts; and Madison, Wisconsin.



John Glenn

Former GM Executive Was Murdered in N.Y.

By Marcia Chambers

New York Times Service

NEW YORK — The body of a man recovered early this month from a New York state lake has been identified as that of George M. Perry, a former General Motors executive who had extensive business contacts in Europe and South America. He was found with three bullets in the head and weights attached to his legs.

Mr. Perry, 64, disappeared from a midtown Manhattan hotel in January, leaving behind \$2,000 in American and Brazilian money in a hotel safe-deposit box. He was working as an international trade consultant for a Brazilian company.

The body was found April 8 by fishermen on the shore of Lake Tiorati, one of many lakes in Harborman State Park, 45 miles (72 kilometers) from Manhattan.

An autopsy showed that Mr. Perry had been shot in the head at close range with three .22-caliber bullets and that his body had been dumped into the lake sometime in January, when the park was deserted.

The state police have gathered details about Mr. Perry's record in World War II and his business dealings both in the United States and abroad.

Because Mr. Perry had spent most of his adult life working abroad, the police said they were looking into the possibility that he had done intelligence work for the United States. They are also checking his business involvement in New York City and South America.

Mr. Perry had been living in São Paulo since August. Family members said Mr. Perry had booked a Jan. 9 flight to Zurich from New York. He was to have met a business associate there and perhaps go on to East Germany and then Brazil.

"We don't know where this one will lead us," said Joseph Brown, the Orange County district attorney. Mr. Brown described Mr. Perry as a "worldwide traveler" whose assignments in 30 years with GM took him from Europe to South America.

So far, the authorities have neither a suspect nor a motive. But the investigation has focused on his corporate life and his possible intelligence dealings.

Mr. Perry's three sons said he was fluent in six languages—Czech, German, English, French, Spanish and Portuguese—and spoke some Russian. His parents, American citizens, were living in Prague in 1919 when Mr. Perry was born.

Volcker's Future Splits White House

By Steven R. Weisman

New York Times Service

WASHINGTON — After President Ronald Reagan pulled Paul A. Volcker aside last Wednesday to apologize for news stories suggesting that he would be let go as chairman of the Federal Reserve Board, two things became apparent to aides and economists close to the president.

First, according to one official, was that the president, as he told Mr. Volcker, has not made up his mind about whether to replace the Fed chairman when his four-year term expires Aug. 6.

And second was that Mr. Volcker, if asked to continue on the job, would likely accept.

For months Mr. Reagan has refused to discuss what his advisers say is one of his most important personnel choices since taking office. And when press reports surfaced last week that Mr. Volcker would step down, the White House moved quickly to deny them.

Several aides and economists close to Mr. Reagan said that the president was keeping his feelings to himself. But it was nonetheless the hunch of many that the president would put his own man in the job.

According to several officials, there is a clear consensus among Mr. Reagan's longtime political advisers, particularly those from California, that Mr. Volcker has to go. Some of the Californians are said to favor replacing him with Preston Martin, a Californian who is vice chairman of the Fed.

One aide said: "The fact is that Paul Volcker is associated in the public's mind with high interest rates. I have to believe the president would want to run for re-election without being saddled by picking someone with that reputation."

In addition, since the 1980 election, Fed actions under Mr. Volcker have taken some knocks from Mr. Reagan and those advisers who advocated the three-year tax cut that was the centerpiece of his campaign and his 1981 economic program.

It was not lost on the "supply-siders" that Mr. Volcker's economic concerns in the last two years related more to keeping a tight grip on money supply and warning that budget deficits would have to be trimmed even if that meant not cutting taxes.

Mr. Reagan has never criticized Mr. Volcker personally, but he has many times blamed Fed policies for allowing the money supply to grow too rapidly at the end of 1980, which, he said, fueled inflationary fears and led to skyrocketing interest rates.

More recently, Mr. Reagan has suggested, as has Donald T. Regan, the Treasury secretary, that the 1982 recession was brought about in large measure by an overly tight money supply in late 1981.

The recession, in any case, led to a temporary freeze in the personal contacts between the Fed chairman and the president. Mr. Volcker and Mr. Reagan did not meet at all between February 1982 and February 1983.

Yet the Fed chairman has many important defenders within the administration.

A senior White House official who will play an important advisory role in the decision said it was still "quite possible" that Mr. Volcker would be reappointed. He said the president and Fed chairman had established good relations recently and noted they had met twice recently.

In addition, White House officials say, Martin S. Feldstein, chairman of the Council of Economic Advisers, who meets with Mr. Volcker weekly, has made it clear that he feels Mr. Volcker merits reappointment.

White House officials also point out that Mr. Volcker has been strongly defended over the last two years by some key advisers.

In late 1981 and 1982, when Mr. Reagan was criticizing Mr. Volcker for an overly tight monetary grip, the Fed chairman was defended by James A. Baker 3d, the White House chief of staff; David A. Stockman, the director of the Office of Management and Budget; and Richard G. Darman, a presidential assistant.

White House officials speculate that these advisers would probably look favorably on Mr. Volcker's being reappointed, since they have shown the most sensitivity to the fears and desires of the financial community. But Mr. Baker, for instance, has told associates not to make any assumptions about his views.

A leading Reagan adviser said: "What you're getting is a debate inside the administration, with people putting stories out to influence the debate."

He added: "I know for a fact that the president has not confronted the issue. You're on thin ground anyway if you think that his decision will be based on an average of what people around him think."

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Paul A. Volcker

Representative Suggests Merging U.S. Air Forces

Washington Post Service

WASHINGTON — The time has come to consider merging the tactical air forces of the U.S. Army, Navy, Air Force and Marine Corps, according to Representative Jack Edwards of Alabama, the ranking Republican on the House Appropriations subcommittee on defense.

The fact that a legislator such as Mr. Edwards is even thinking about such an action, which he said in an interview is all he is doing, is bound to send tremors through the armed services. Some of the biggest interservice battles have been over who should do what in aviation.

"It's an example of the unthinkable that we have to think about," Mr. Edwards said, Congress will.

Mr. Edwards said, "Forces would be arrayed against [the plan] in great fashion."

Mr. Edwards said Congress and the Pentagon must look for ways to save money through consolidation of duplicative activities, such as tactical air services, to lower the "bow wave" of military spending now building and due to crash over the country later in the decade.

The four services have ordered thousands of new weapons under President Ronald Reagan's rearmament program, and the biggest bills for these orders will fall due late in the 1980s.

If the Pentagon does not find a way to lower this bow wave, Mr. Edwards said, Congress will.

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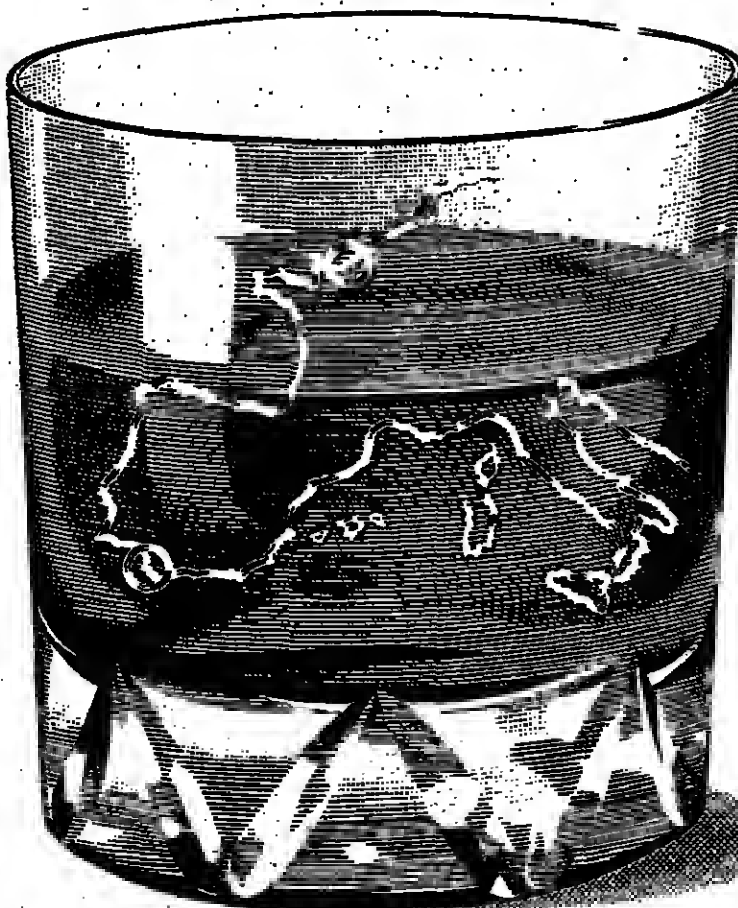
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Reagan's Budget Success Turns Sour

By Helen Dewar
Washington Post Service

WASHINGTON — The fickle budget control process in Congress, which President Ronald Reagan has so successfully exploited over the last two years, has turned around and bitten him.

Suddenly, instead of easing the way for Mr. Reagan's program, the process by which Congress each year reshapes the president's budget into a framework for its own future decisions on taxes and spending is threatening to dismember the program.

The setbacks for Mr. Reagan on the budget arise less from twists in the process than from a major shift in economic and political winds, whipped up by the prolonged recession and the perceived failure of Mr. Reagan's economic initiatives.

to tame it in time to avoid serious national suffering. It also has to do with the clumsiness of the White House response to these changes, which were reflected in mounting Republican and Democratic boldness in challenge.

NEWS ANALYSIS

lending key elements of Mr. Reagan's program: deep tax cuts, a costly military buildup and heavy domestic spending cuts.

To the extent that the economy is rebounding and the White House appears finally to have been bludgeoned into moderating its no-compromise stance, Mr. Reagan may still be able to get a budget for fiscal 1984 that he can live with, albeit uncomfortably.

But he is facing in the Democratic-controlled House a budget that

cuts his military buildup by more than half, restores billions of dollars cut from social welfare programs and jeopardizes the remainder of his tax-cut program.

And awaiting action in the Republican Senate is a budget that, because the Budget Committee could not produce a majority for anything else, gives Mr. Reagan little more for military spending than did the House, rejects most of his latest proposed cuts for social programs and echoes the House on taxes.

Senate Budget Committee Chairman Pete V. Domenici, a New Mexico Republican, joined by other Republican leaders, has said he will work with the White House on amendments to safeguard Mr. Reagan's tax program and boost military spending.

But members brave enough to

predict a final budget outcome are nonetheless anticipating a slowdown in the military buildup, a somewhat looser rein on domestic spending and at least some new taxes — perhaps the \$10 billion to \$15 billion contemplated by House Ways and Means Chairman Dan Rostenkowski, an Illinois Democrat — to help contain the deficit.

Although this would not unravel Mr. Reagan's program, it certainly would fray the edges.

The budget process, adopted nearly a decade ago as part of a compromise to make President Richard M. Nixon spend what Congress had appropriated, has become a time-consuming, mind-numbing, number-crunching monster to many members who complain that it distracts lawmakers from more important business.

But nothing beautifies the beast like an assault from the executive branch, as Mr. Weinberger discovered when he suggested that Mr. Reagan would be better off if he tried to skirt the budget process and deal in the old way with the two houses' appropriations committees.

Even Democrats who had a nasty word or two for the process when it was being used to gut their favorite programs rallied to its defense.

Moreover, House Speaker Thomas P. O'Neill Jr., a Massachusetts Democrat, indicated the price the administration might have to pay for no budget when he declared before the Senate committee vote Thursday that, if Congress did not wrap up a budget quickly, the House would start cranking out appropriations bills based on the House-approved budget.

This would mean \$30 billion more than Mr. Reagan wants for domestic spending and an after-inflation military spending growth of 4 percent — the administration says it is really only 2.3 percent — instead of the 10 percent sought by Mr. Reagan.

Moreover, there is no guarantee that the appropriations process will be more generous to the Pentagon than the budget.

In fact, figures compiled by Representative Les Aspin, a Wisconsin Democrat on the Budget and Armed Services committees, show that Mr. Reagan's first budget allotted the Pentagon \$208.7 billion for fiscal 1982, or about \$9 billion more than was finally appropriated. The fiscal 1983 budget allotted \$238.5 billion, about \$7 billion more than was appropriated.



SWISS SUFFRAGE — Men casting votes at a People's General Assembly in the Swiss half-canton of Appenzell-Ausserrhododen, one of two half-cantons where only men are allowed to vote at such gatherings. Their swords are symbolic of this right.

France Criticizes Conditions Set By U.S., South Africa on Namibia

Compiled by Our Staff From Dispatches

PARIS — France strongly criticized the United States and South Africa Monday for demanding that independence for South-West Africa, or Namibia, be linked to the withdrawal of Cuban troops from neighboring Angola.

The minister of external relations, Claude Cheysson, speaking at the opening of a UN conference on Namibia, said France could not accept the demands and pretexts

being placed in the way of independence for the South African-ruled territory.

"This statement, which will most likely be criticized, does not mean my country is unaware of the problems which will come up immediately after independence," he said.

"But it means that accession to independence and the application of the Security Council's resolution cannot be held up by other considerations."

"It is not appropriate that the Namibian people should serve as a hostage to enable neighboring countries to deal with other matters, however important they may be," Mr. Cheysson added.

France, which like the United States is a member of the five-nation Western contact group on Namibia, has never concealed its opposition to linking the issues.

Last month, during a visit to Paris, President Kenneth Kaunda of Zambia urged France to put pressure on the United States to drop the idea.

Mr. Cheysson said the contact group's three-phase plan for independence had been accepted by South Africa, the front-line African states and the South-West African People's Organization, or SWAPO, the movement that has fought a guerrilla war for 17 years for control of Namibia.

He said France did not underestimate the preoccupation of various countries in southern Africa with their security.

"But we are surprised that some treat it as concerning only the security of the strongest, richest, best-armed state in the region,

while it seems to us rather that the threat is particularly big for the weakest, most impoverished and least-armed states."

"We are shocked that they are attempting to make the agreement to withdraw these foreign forces the precondition for the independence of Namibia," he added.

Acknowledging increasing African impatience with the slow progress made by the contact group, he said: "Frustration is gathering, despair is mounting. Tomorrow the violence could spread. The moment for peace has come."

African sources said that Mr. Cheysson's address failed to dispel their anxiety about the role of the contact group in the negotiations.

Cheo-ben Gurirah, permanent SWAPO observer at the United Nations, said Mr. Cheysson had repeated what was already well known as the French position. "We welcome this participation in the conference and this restoration of the French position, but we are left hanging in the air in the absence of a clear indication of what the French propose to do given the current impasse."

The president of SWAPO, Sam Nujoma, sharply criticized the Reagan administration, charging that its support for South Africa was delaying independence for Namibia.

He also told the Paris conference that the time had come for the United Nations to resume full responsibility for independence for his country because the group of Western countries working toward this goal had ceased to be honest brokers.

Security Council Faulted for Drift Toward Debate Instead of Action

By Bernard D. Nossiter
New York Times Service

UNITED NATIONS, New York — The Security Council has recently been holding debates without voting on resolutions, and to many delegates here this is a troubling development.

One said that the council was becoming a miniature General Assembly — longer on talk than on action.

The delegates point to a series of debates, beginning in mid-February and ending early this month, that they say indicate that the council has strayed from its function of trying to settle disputes and keep the peace.

The issues ranged from Israeli settlements in the occupied West Bank to Nicaragua's charge of an imminent invasion by U.S.-backed forces in Honduras.

"The council is in a very difficult period," said Porfirio Muñoz Ledo of Mexico, whose government is one of four trying to set up peace negotiations for the conflicts in Central America.

Charging that the council "can't fulfill its essential duties," he picked the Israeli invasion of Lebanon as "the turning point."

Even unanimous council resolutions failed to halt Israel's advance, he said, adding, "In the last year, the situation has become more acute."

Jeanne J. Kirkpatrick, the U.S. representative to the United Nations, said the council had been transformed "from a body which focused on problem-solving, whose negotiations involved the principle parties to a problem, to a body before which certain melodramas are played out."

"It's not paralysis," she said. "There's a lot of activity. It's a sound-and-light show in which a country is identified as villain and victim."

As an example, she cited the recent five-day debate over Nicaragua. The Nicaraguan government had asked for the debate, in which 55 speakers paraded before the council, but sought no resolution. Most speakers directly or indirectly condemned U.S. support for rebels fighting Managua.

Hugo Schellekens of the Netherlands, a council member, said the 15 member countries — 5 permanent and 10 serving two-year terms — "should really decide on international conflicts." He said the

council had grown into a miniature General Assembly.

Besides the Netherlands, current members serving two-year terms are Guyana, Jordan, Malta, Nicaragua, Pakistan, Poland, Togo, Zaire and Zimbabwe. The five permanent members, all of whom can cast vetoes, are the United States, Britain, France, the Soviet Union and China.

Annie M. Moussa, Egypt's deputy delegate, said "the crisis" in the council had been promoted by harsh exchanges between East and West.

His view was disputed by both the American and Soviet missions. The council's dilemma, Mrs. Kirkpatrick said, "didn't arise as a function of the deterioration of Soviet-U.S. relations." She said it flowed from "the targeting of South Africa and Israel," the basis of the council as a stage to create the "villain-victim" and particularly the attempt at the "progressive delegitimation of Israel."

Richard S. Ovinikov, the deputy Soviet delegate, offered a simpler explanation. If the council can't act, he said, "it's because of the threat of an American veto" on issues involving Israel and South Africa's continued hold over South-West Africa, also known as Namibia.

Mrs. Kirkpatrick observed that Moscow had vetoed demands to pull its troops from Afghanistan and Vietnamese forces from Cambodia. She said other nations, such as Argentina in its war with Britain over the Falklands and Iran in its war with Iraq, have also been spared from any pressure to obey. "As long as the desire for implementation is selective, there are not realistic grounds for expecting anything but selective support for sanctions," she said.

In public, Mrs. Kirkpatrick and Mr. Ovinikov profess a more charitable view than their council colleagues. Mrs. Kirkpatrick called the talks "an important exercise" that had made members "more self-conscious about the council."

The Soviet diplomat said: "I don't see it as an exercise in futility. I tend to be a little bit more optimistic."

Local Ballot Reinforces Nakasone

Compiled by Our Staff From Dispatches
TOKYO — Prime Minister Yasuhiro Nakasone's party did well in local elections during the weekend, prompting speculation Monday that he may call a general election in June.

Political analysts said Mr. Nakasone, whose personal following has slumped because of his comments on national defense, may have to yield to pressure for a general election from powerful sections of his conservative Liberal Democratic Party.

Mr. Nakasone has bluntly stated his determination for Japan to be a more stalwart U.S. ally committed to countering the growing Soviet military presence in the Pacific.

The weekend elections were for 145 city mayors, 314 town and village chiefs and 1,537 local assembly members. In the mayoral elections, right-of-center and centrist candidates captured 25 new seats, with at least 104 winners backed by Mr. Nakasone's party.

Mr. Nakasone, who took over the government in November after winning his party's presidential election, said the results had "elevated the local foundations" of the party.

Mr. Nakasone said there was "no relationship" between the election showing and a possible dissolution of the lower house of the Diet, the Japanese parliament.

But the results will give the far more prime minister, Kakuei Tanaka, who controls the biggest faction in the party, added support for his demand for a lower-house election in June to coincide with the scheduled upper-house election.

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Soviet Space Problem Not New, Sources Say

By Robert Gillette
Los Angeles Times Service

MOSCOW — The aborted flight of three Soviet cosmonauts last week was caused by the failure of an on-board computer guidance system that has been a persistent source of trouble in the Soviet manned space program, according to East European sources.

Problems in the same electronic system forced the quick termination of a Soviet-Bulgarian flight in 1979 and marred the highly publicized Soviet-French space mission last June, the sources said.

In the latter case, an on-board computer failure set the three-man Soyuz spacecraft spinning as the two Soviet cosmonauts and the French test pilot Jean-Loup Chrétien struggled to dock with the orbiting Salyut-7 space laboratory.

Soviet officials said nothing about the mishap at the time, but Mr. Chrétien disclosed it on a news program in Paris last July. Describing the Soyuz spacecraft as tumbling in space "like a stone rolling over," Mr. Chrétien said the crew "had to act very quickly" to regain control and guide it manually to the Salyut space lab.

In the latest such incident, the three Soviet cosmonauts failed to link up with the Salyut-7 in orbit and instead brought their Soyuz T-8 spacecraft back to Earth on Friday, 48 hours after lifting off.

It was the fifth time in approximately 50 flights of Soyuz spacecraft since 1967 that a rendezvous and docking with a Salyut laboratory failed. Most of these aborted missions are said to have resulted from a flawed guidance system.

"This system is the most unreliable part of the whole [Soviet] manned space program," a knowledgeable European source said.

Tass reported that the cosmonauts felt well upon their return, but it did not explain why a mission expected to last several weeks had ended after two days.

Lieutenant Colonel Vladimir G. Titov, 36, was commander of the mission and on his first space flight. Gennadiy M. Strekalov, a 43-year-old engineer, and Alexander A. Serebrov, a 39-year-old researcher, had each made one orbital flight before.

Soviet newspapers disclosed Saturday that ground controllers near Moscow had terminated the flight for safety reasons after trouble developed aboard the spacecraft. The newspapers did not say precisely what the trouble was, but indicated that it had led to a harrowing experience for the cosmonauts.

The launch of the Soyuz T-8 on Thursday, and its shift to a higher orbit in preparation for a linkup with the Salyut-7 station, went as planned on the first day in space, according to the armed forces newspaper Krasnaya Zvezda.

Trouble began on the second day as the process of rendezvous and docking began. Krasnaya Zvezda said that "deviations from the preset regimes of approach were noted" early in the flight and that ground controllers had to "change the plan of maneuver."

"Everything was carried out according to schedule, and now the spacecraft and the station were slightly more than 10 kilometers [6.2 miles] apart and the distance was narrowing," the newspaper said.

It said, however, that the final approach required "intricate work" by ground controllers, crew and an on-board computer. It was at this point, as the spacecraft closed in on the Salyut station, that trouble developed and the linkup was abandoned, the paper said.

What actually happened, the East European sources said, was a breakdown of the on-board computer guidance system that controls the spacecraft's small thruster rockets. The crew evidently tried to use manual controls, but controllers apparently halted the rendezvous a few hundred meters short of the space station when fuel for the thruster rockets — needed later to orient the Soyuz craft for re-entry into the atmosphere — fell to the minimum allowable level.

Spanish Rightist's Aide Quits in Scandal

New York Times Service

MADRID — The security guard for Spain's rightist opposition leader has resigned in a scandal centering on charges that he organized death squads in Argentina in the 1970s.

The guard, Rodolfo Eduardo Almiron, said in a letter last week that he was stepping aside until the courts "repair the damage" of the "scandal" raised against him.

The letter was addressed to Manuel Fraga Iribarne, leader of the Popular Alliance party, in elections last October. The party emerged as the main opposition to the Socialists.

Mr. Almiron is a former Argentine police official who arrived in Spain in 1975 and became a citizen in 1979. He joined Mr. Fraga's entourage sometime in 1981 and rose to become his security chief.

The accusations against him were raised in the news weekly Cambio 16, which supports the Socialist government. On the basis of a press libel law, Mr. Almiron obtained a court order to force the confiscation of two of the last three issues of Cambio 16 that gave front-cover prominence to articles about his past.

He is suing the magazine on the ground of injury to his personal honor, and the magazine in turn is planning a countersuit to seek damages for the unsold copies.

Other newspapers have supported Cambio 16 in what they see as a dispute over freedom of the press. The bodyguard with a shadowy past has thus turned into a major issue just as the campaigns for local elections got under way. Municipal and regional elections are to be held May 8.

The government became involved when the Interior Ministry canceled Mr. Almiron's permit to carry arms. This move, he noted in his resignation letter, "impeded me from fulfilling my work effectively."

In a newspaper interview, Interior Minister José Barrionuevo said the police had information that "coincides in many points" with the articles in Cambio 16.

The articles were based on statements by a former Argentine police official, Rodolfo Fernández, and by various Argentine exiles. Mr. Fernández also provided testimony against Mr. Almiron to the United Nations Commission on Human Rights and to the Argentine Commission on Human Rights, a Madrid-based organization, the magazine said.

Top Finnish Communist Rejects Soviet Criticism of Party Leader

Reuters

HELSINKI — A senior Finnish Communist has dismissed Soviet criticism of his party and emphasized its independence.

Aarne Saarinen, a former party chairman, said that an article in last Thursday's Soviet party daily, Pravda, accusing the Finnish party's general secretary of favoring the purging of hard-liners would not help efforts to reunify the divided Finnish Communists.

Mr. Saarinen said such criticism was inspired by Finnish Stalinists, who had been conducting a campaign against General Secretary Arvo Aalto for many years. The Finnish party has been divided since the 1960s into a mainstream majority and a Stalinist minority, which has accused the mainstream, including Mr. Aalto, of hoping to split the party definitively.

Mr. Saarinen was quoted in the leading party daily, Kansan Uutiset, Monday as telling a Central Committee meeting over the weekend that he did not believe the Pravda article "can in any way promote unity within the Finnish Communist Party. On the contrary, it may harm the development toward unity."

He recalled that European Communist parties "hold firmly to the equality and sovereign independence of every party and to nonintervention in the affairs of any other party."

U.S. Isolated on Environmental Issues

By Cass Peterson
Washington Post Service

WASHINGTON — For 13 years, the Organization for Economic Cooperation and Development, a Paris-based group staffed largely by scientists and technical experts from 24 nations, worked on ways to protect citizens from the hazards of new chemicals.

Last year, with the Dow Chemical Co. visibly lobbying the U.S. delegation, the United States suddenly forced the group to back away from a mandatory set of tests on chemicals before they enter the marketplace. Eventually, the panel adopted a nonbinding recommendation that its European members regard as meaningless.

Congress is investigating Dow's role in the negotiations as part of a continuing probe into whether industry views unduly influenced policies of the Environmental Protection Agency and its enforcement of environmental laws.

But while Dow's involvement in this episode has drawn attention, the fate of the chemical testing system is part of a larger development. Since Ronald Reagan became president, the United States has blocked, damaged or destroyed numerous international environmental efforts in a sometimes clumsy campaign to remove regulatory obstacles, domestic or international, from the paths of commerce.

"A change has taken place," Dr. Rune Lomgren, a Swedish delegate to the OECD, said last week.

"We have been concerned, of course. The outside world needs to share the resources the United States has. We hope this funny story was isolated."

Environmentalists, scientists and officials in the EPA and other government agencies say the OECD case is far from isolated.

They offer these examples, among others:

• In March 1981, six weeks after it took office, the Reagan administration launched a campaign against a Law of the Sea Treaty crafted under eight years of Republican and Democratic administrations.

The treaty, which establishes an international code for exploitation of the world's ocean resources, was ratified overwhelmingly in a UN vote and signed by 120 nations.

The United States, concerned that the treaty would restrain deep-sea mining operations, refused to sign it and persuaded some of its allies, including Britain and West Germany, to go along.

• The administration has remained steadfastly opposed to new controls on air pollution to curb the transboundary effects of acid rain, prompting Canada to charge the United States with negotiating in bad faith under a 1980 agreement that called for a diplomatic solution to the problem.

• Last fall, the United States cast the only negative vote on a proposed UN World Charter for Nature. More than 135 nations voted for the charter, which called

on UN members to "respect nature and its essential processes."

• Less than two months later, the United States cast the only negative vote among 147 nations on a UN initiative to prohibit export of banned hazardous products without the knowledge and consent of the recipient country.

President Jimmy Carter, by executive order, had prohibited such exports without advance notice of the substance's potential effects.

Mr. Reagan revoked Mr. Carter's order 17 days after he took office.

• The administration has attempted to cut U.S. funding to the UN Environment Program to \$3 million, 70 percent below its 1980 level. Congress restored most of the funds in fiscal years 1982 and 1983, but the administration is trying again in fiscal 1984.

• Budget cuts also threaten several research programs with an international emphasis. In fiscal 1984, for example, the administration has proposed to end research in Antarctica and the U.S. contribution to UNESCO's Man and the Biosphere research program.

Critics of the administration contend that the frequent reversals in long-standing U.S. positions threaten to cost the United States its leadership role in efforts to find solutions to international environmental problems.

In the case of the UN nature charter, critics of the U.S. position concede that the document needed rewording but contend that the United States, as the only oppo-

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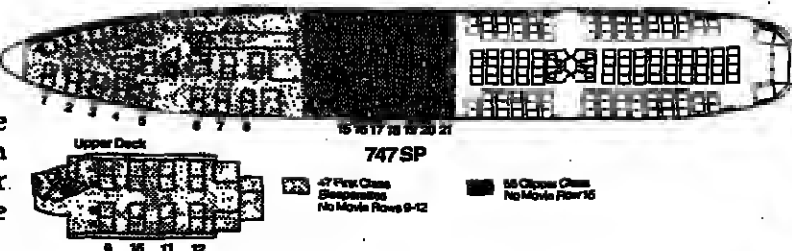
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Domenici's Initiative

The White House has been angrily denouncing the Senate Budget Committee for its disapproval in failing to follow the Reagan non-plan. A "gross dereliction," buffed the president's spokesman. On the contrary, the president has steered his budget into a place from which nothing is visible but \$200 billion-a-year deficits as far as the eye can see. Over the president's objections, Congress is trying to find a way out. The chairman of the Senate committee, Senator Pete Domenici, is setting a remarkable example of realistic and responsible initiative that contrasts favorably with the performance at the other end of Pennsylvania Avenue.

Mr. Domenici has repeatedly told the White House he will work with it to pass the best possible budget resolution. But he is determined to pass a resolution, and he is not inclined to let presidential intransigence block it. The resolution is already behind schedule. First Mr. Reagan pressed the committee to hold off its votes on defense spending to enable him to round up support; the committee gave him several weeks' delay, but this did not do him any visible good. Then Mr. Reagan objected vehemently to the committee's provision for a tax increase. Because several of the committee's Republicans refused to support any new revenues at all, Mr. Domenici had no choice but to work with the Democrats. When the resolution comes to the floor, he will try to

scale back the requirement for tax increases in 1984. But he is determined to get a resolution enacted — and he is absolutely right on that.

Mr. Reagan is now being pulled by three clearly discernible factions among his own staff. One of them is chiefly interested in maintaining the very rapid increases in defense spending. One is adamant about holding down taxes. The third is worried about his large deficits and the high interest rates that they perpetuate. To do anything about the deficits will require modifying the defense plans and raising taxes. Sen. Domenici has been warning him about that, with absolute consistency, for a year and a half. The president's budget director, David Stockman, made much the same point in the very candid memorandum that leaked last week. But Mr. Reagan so far is giving priority to defense spending and low taxes — to the dismay of many in his own party.

That seems to be Mr. Reagan's style on budgets. He strikes a posture, and waits for Congress to intervene on the side of reality and necessity. He did it last year, and he is doing it again this year. Congress is rising to the challenge remarkably effectively. And when the White House attacks senators for departing from the presidential position, perhaps it is not to be taken entirely seriously.

—THE WASHINGTON POST.

Loose Talk of Cheating

President Reagan has been playing with the idea of accusing the Soviet Union of violating arms control agreements. The White House has remanded the matter for further study, but appears eager to dust it off at any time. Asked at a recent photo ceremony if the Russians had violated the SALT treaties, Reagan replied, "When have they stopped?" For the sake of short-term gain, such as helping the defense budget through Congress, the president was evidently tempted to jeopardize the treaties.

"There have been increasingly serious grounds for questioning [Soviet] compliance with the arms control agreements that have already been signed," Reagan said three weeks ago, stating that he might have more to say soon. On Friday, he reiterated some, showing that he understood that it is often prudent to hear a suspect's point of view before condemning his guilt in public.

The SALT-1 treaty of 1972 set up a Standing Consultative Commission in which both sides might raise matters of concern about the other's adherence. Officials familiar with its work say there has been no case in which inquiries were not ultimately resolved to the satisfaction of both parties.

But the administration has almost entirely abandoned use of the commission, on the ground that this would give legitimacy to the SALT-2 treaty, which it is observing but refusing

to have ratified. The failure to exploit this channel has left it much confused about some Soviet practices and intentions.

A case in point is a Soviet missile test Feb. 8. The missile appeared to be a second new type of ICBM, when SALT-2 restricts each side to only one. The Russians indicate it was a permitted modification of their existing SS-13. There are substantial reasons to suggest that the missile was different enough from the SS-13 to constitute a new type, as defined by the treaty. But since there has been only one flight test, and not all U.S. intelligence-gathering systems were functioning that day, it is hard to be sure. It's exactly the kind of ambiguity the consultative process used to resolve.

The SALT treaties are technically complex agreements, with many gray areas. The Russians exploit all loopholes and chisel away at the limits. They also have questions about U.S. behavior.

One answer is to reach new agreements to resolve these inevitable doubts. The other is to jump to the conclusion that all ambiguities are Soviet violations, which is a large step toward abrogating the whole process. A sincere interest in arms control would lead the administration to explore these problems fully with the Russians before it contemplated provocative public denunciations.

—THE NEW YORK TIMES.

Too High on the 'Hog'

"I'm not concerned about the Japanese," Vaughn Beals, the president of Harley-Davidson, said two years ago. "There's nothing magic in what they do." Later, the sobered chief executive of the only American-owned manufacturer of motorcycles had been telling a different story.

Mr. Beals has not proved that Japanese competitors have acted unfairly. But he has convinced the Reagan administration that Harley-Davidson has been injured by imports. President Ronald Reagan recently offered relief — a tenfold temporary rise in tariffs on foreign competition.

Will the tariff give Harley-Davidson time "to make manufacturing improvements and bring out new products," as Mr. Beals contends? There is no way to know. What is certain, though, is that the tariff will raise the price of large motorcycles by 10 to 20 percent. Worse, it will encourage manufacturers of other products, also beaten in the marketplace by foreign rivals, to demand similar protection.

Just a few years ago Harley-Davidson held a commanding lead in the sale of "hogs," the heavy motorcycles with large-displacement engines made famous by Marlon Brando and countless police departments. Honda, Yamaha, Suzuki and Kawasaki had come to dominate the market for smaller machines by offering quality, variety and low prices. But Harley's management figured that their customers would always pay a premium for the hog.

They figured wrong. Japanese manufacturers made Harley's customers an offer they couldn't refuse: look-alike, drive-alike hogs for

\$1,500 to \$2,000 less. And then, knowing that the Milwaukee company would appeal to Washington for protection, the Japanese offered Harley \$20 million in private loan guarantees and technical assistance. But Harley calculated, correctly this time, that Mr. Reagan would do better.

Perhaps Harley can become competitive in five years. Its unions have given up pay increases for a year and the company is updating designs and quality control. But labor still costs \$17 an hour, an enormous differential compared with Japan. It is not hard to imagine that eventually Harley will, even with the protection, fail or be merged into oblivion.

Is there a moral here? The trade laws allow the president to protect industries injured by foreign competition. Once the finding of injury had been made by the U.S. International Trade Commission, an election-minded president had little choice but to follow the commission's recommendation.

There is a better way. Permit the administration to make protection conditional on a plausible plan to make the industry competitive again. Congress knows how to do that; that is just what happened when it linked loan guarantees for Chrysler to major concessions by labor, management, suppliers and creditors.

Customers of Harley-Davidson, or other companies able to win tariff protection, will involuntarily pay tens of millions of dollars as a result. They at least deserve to know that their money is being spent in a promising cause.

—THE NEW YORK TIMES.



May 1: Solidarity's Calculated Risk

By Leopold Unger

BRUSSELS — There will be two parades May 1 in Poland: one organized by the people and the other by the police. The scene is set for the most important test of strength since the coup d'état of Dec. 13, 1981.

The clandestine leadership of the independent union Solidarity, supported by Lech Walesa, has called for an "independent celebration" of international Labor Day. It denounced the official ceremonies as an insult and asked that they be boycotted.

"For the government and those who live off the current regime, May 1 will be a day of uncertainty and fear. We will hold ceremonies that will let the world know the truth about Poland. We demand freedom for political prisoners, free unions and civil liberties," the Solidarity leadership, which is known by its Polish initials, TKK, said in a statement.

This declaration and Walesa's news conference at which he announced that he would march with his comrades May 1 constitute an open challenge to the Communist military regime. In a country occupied by its own army and surrounded by the Red Army, this means running a great risk. People find themselves in jail for much less.

Alexander Malachowski, a well-known columnist, was imprisoned on the charge of having met a member of the TKK, Zbigniew Bujak. Janusz Onyszkiewicz, a former spokesman for Solidarity, was jailed for a speech he made during a ceremony marking the Warsaw ghetto uprising. The Poles will need all their courage to go into the streets and march to the rhythm of the slogans of Solidarity.

The government and the Communist Party are angry. They warn that "the forces of order will act firmly and efficiently" against rebellious marchers May 1 and that "foreign and extremist agitators" are threatening to disrupt preparations for the visit later this year of Pope John Paul II.

Yet TKK seems to have calculated its risks well. The call for an independent march is clever

tactical. The government, which claims to emanate from the workers, will not find it easy to suppress a workers' demonstration on Labor Day. Last year groups of workers claiming to belong to Solidarity — whose leaders were in jail — marched through every city in Poland and the police intervened in only one case. This year the TKK is not alone; it has the backing of Walesa and the other union leaders who have been freed.

Furthermore, the TKK has called for orderly and legal marches, saying that the demonstrations must be well publicized and that the routes to be followed, as well as the assembly sites, should be made known to all.

Now the ball is in the government's camp. Walesa made it very clear during his news conference that the government alone would be responsible for any incidents and their consequences if the police intervened against independent marchers May 1. The workers, he said, consider that day and their right to demonstrate as symbols of their class consciousness.

This tactically clever move is also a major political step. It is a turning point in Walesa's attitude. His meeting with the TKK, his reaction to police harassment, his implicit but unquestionable support of the TKK call for independent demonstrations indicate a change in the situation, a change in which he will want to specify the roles that he and the TKK will play in the future.

Walesa will assume the open, legal and symbolic action, while the TKK will head the activities that run the risk of violating martial law. The two heads of the independent workers movement, Walesa and the TKK, will thereby confer on each other a type of legitimacy.

The pressure that the government tried to exert on the church has thus been turned around. Cardinal Jozef Glemp, the Polish primate, has been neutralized by the pope's pending visit,

and, as cautious as he may be and eager for calm, he will not be able to say anything against the call for demonstrations May 1, as he spoke against a strike call Nov. 10.

The church has made important concessions to prevent impeding the papal visit. Among these was acceptance that the pope would stay in the convent of Jasna Gora and travel only by helicopter, a move that would seriously impair his contact with the people. For the same reason, he will hold only one open-air Mass.

The TKK recently wrote to the pope to explain its point of view. It told him that for the Catholics of Poland his visit must be a symbol of hope and of solidarity with the victims of oppression. "The church's goals are greater than ours," Walesa said. "The workers must not allow themselves to be led blindly. The union has its own goals."

Under these circumstances, the government's attempt to control the papal visit may have the same result as its heavy-handed domination of the ghetto uprising ceremonies; that is, a complete fiasco for the regime. One conclusion may now be drawn from the current negotiations and manipulations: If the Poles will do whatever they can to prevent the cancellation of the pope's visit, there is a limit to their compromise; they are not ready to pay the price of normalization of the military regime.

The regime will have to choose between wide repression and its inevitable consequences of violence and political fallout, or the start of a dialogue, which would entail that the government accept that a free organization can exist within the framework of totalitarianism.

Repression would be catastrophic for everyone, including General Wojciech Jaruzelski. A dialogue would not be something unknown. The Polish government has already shown that it knows how to negotiate; it understood the balance of forces within the nation when it signed an agreement with Solidarity in Gdansk on Aug. 31, 1980.

International Herald Tribune.

Sophisticated Liberals Shouldn't Mock Glenn

By James Reston

WASHINGTON — At this early stage of the 1984 presidential election, attention is focused on statistics and techniques: who's ahead in the polls, who has raised the most money, and put together the best organization, and attracted the most support from labor, the blacks, the conservationists, the anti-nuclear voters, etc.

These are important and often decisive considerations, and former Vice President Mondale is favored to win the Democratic nomination because he has concentrated on them, whereas Senator John Glenn is being criticized because he has not.

He is working to improve the machinery of his campaign, and will have plenty of time to do so. He is well aware of the political power of the many large, special interest groups within the Democratic Party and is seeking their support, but he's not always telling them what they want to hear.

The decisive consideration for most candidates in the early days of a campaign is not whether the policies they advocate are good but whether they are popular, not whether their remarks win the support of the electorate as a whole but whether they appeal to the active leaders of large political constituencies.

But this is not Glenn's way. He is acceptable to most factions within his party but captive of none. He goes along with big labor most of the time, but will suddenly vote, for example, against one of labor's favorite issues, such as the provision permitting one union to shut down an entire construction site. He backs Israel, but votes to send the most modern U.S. planes to Saudi Arabia and is therefore charged with being "no friend of Israel."

He is liberal in his votes on women's rights and aid to education and the elderly, but on most economic issues he votes more with the Republicans than any of the other Democratic presidential candidates, though he condemns Reaganomics, as he did in announcing his bid for the presidency the other day in his home town of New Concord, Ohio.

The Democratic pros accuse him of seeking the nomination outside the bounds of his own party, and the Republicans accuse him of proclaiming an optimistic riot of contradictory beliefs.

He is told this may be a good strategy once you get the nomination but a poor way to get it. He listens and goes his own way, as he did in the 1980 elections in Ohio, when he won by more than a million votes while Jimmy Carter was losing the state to Ronald Reagan by half a million. Glenn is trailing Mondale now, but

his stubborn independence, self-confidence, unflinching optimism and acknowledged moral integrity should not be minimized or mocked, as some of his sophisticated liberal critics are inclined to do.

There are ways of looking at this competition for the Democratic nomination besides watching the capricious fluctuations of the polls and the lobbies.

In the last half of the 1980s, the United States is clearly going to have to face a vast reappraisal and transformation of its national life, affecting the condition of its old industries, the computerization of its business and education, the relations of the U.S. government to the American people and to its allies, adversaries and the hungry majority of the human family.

This is not likely to be a passing phase that can be handled by the rigid ideologies of right or left but will require a great national, cooperative,

flexible, pragmatic, bipartisan effort. Americans are just beginning to sense that something unprecedented has happened, requiring new and different ways of looking at the problem of leadership in the White House, Congress and many other institutions.

In this sense, Glenn's independence and his appeal beyond the lobbies and party dogmas may not be his weakness but his strength. Unlike Mondale, who is betting on the support of labor and the rising power of blacks and Hispanics, Glenn is casting his net much wider into the business community and the growing body of independents, weary alike of New Deal slogans and Reagan's comfortable illusions and easy cheerfulness.

It is said that the people will likewise grow tired of Glenn's misty vagueness and demand a more concrete definition of his policies. That may be so, but for now he has a philosophy that is likely to appeal to the

longings of a wider audience than Mondale's.

This is especially true in the South, without which the Democrats cannot hope to win, and in the conservative West and Southwest, where the Democrats have been losing ground.

Glenn cannot match Reagan's charisma or Mondale's windmill speaking style — though his speeches are getting shorter and sharper — but he probably has a better chance to capture the middle ground than anybody else in his party, and that's where elections, if not nominations, are won.

"The issue is leadership," he said in New Concord. "The policies of this administration aren't expanding opportunity, they're diminishing it. They aren't promoting excellence, they're discouraging it. They aren't fostering compassion, they're reducing it. The president says America is on the mend. I say it's time America was on the march."

Even a lot of Republicans would probably endorse that.

The New York Times.

LETTERS TO THE EDITOR

40 Years Too Late

Regarding "Polish Police Arrest 26 in Underground" (IHT, April 18):

The Polish government's attempt to use the occasion of the 40th anniversary of the Warsaw ghetto uprising to distract attention from current political repression is, to be sure, contemptible.

But Mr. Onyszkiewicz's belief that the ghetto fighters would, if alive, "join us in the fight" is equally out of place. Forty years ago, none of the (non-Jewish) Polish resistance organizations lifted a finger to help the Jews or to cooperate with Jewish-dominated resistance groups. Today, these same people and their children condemn the Warsaw ghetto survivors. They are 40 years too late.

RICHARD KOGUT.

Commission's Courage

Regarding "The Jerusalem Edit" (IHT, Feb. 14):

Israel's inquiry into the Beirut massacres, the commission's courage in upholding the finest standards of human justice and civilized behavior is heartening to the horrified, and conscience-stricken people of all nations who watched the terrible Lebanese drama unfold before their eyes all last summer. Much of Israel has

stood up and accepted the burden and shame of the Sabra and Chatila atrocities, but what of the others who were also responsible? What of the barbarous Christian Phalangists whose hands did the actual killing? What of the American and other governments who withdrew their protection from Beirut far too soon, and what about the American Jewish community who has, in blind zeal, supported the state of Israel on government's policy?

Surely the blood of the murdered Palestinians can fall on the shoulders of other people as well as upon the conscience of the citizens of Israel? As the New York Times article so well stated, "Americans have a duty here." We should support and encourage the many Israelis who do not want domination over a million Palestinians, and who never wish to be a party, no matter how remote, to acts of atrocity against another people again.

FAITH COSSA.

Geneva.

Distinction of Degree

Regarding "Making a Distinction" (IHT, March 7):

Anyone who has read the Kahane report, biased though it was, cannot but conclude that Sharon et al. ordered troops into the camps (Sabra and Chatila) knowing full well what

would occur. Also, from the Israeli command post on the perimeter of the camp it was very easy to see what was happening, even without binoculars.

The distinction between Barbie and Begin, Sharon, etc., is at this point only in degree — not in the kind of immorality.

Dr. JACK D. McLEOD.

Beirut.

The New Superchips

Regarding "Pentagon Aims to Overtake Japan in Race to Build 'Supercomputers'" (IHT, April 2-3):

Every detail of Michael Scharre's article accords with what we have had to learn about the tactics and strategy of late-20th-century science: The predictable development of new "problem-solving capabilities," the Pentagon's assertion of an unconstrained *droit de seigneur* over the development, the automatic assumption that what really matters is whether it will permit the United States to dominate Japan industrially and the Soviet Union militarily (or perhaps both of them industrially-militarily?).

Never fear, the new superchips will kill their thousands and their tens of thousands — if not their millions. Yet it is still possible to imagine that such a qualitative leap into new kinds of analysis and control — into a new degree of mastery of over human re-

Studying Atomic Veterans

By Judy Mann

WASHINGTON — In 1973, Orville Kelly of Burlington, Iowa, was diagnosed as having a terminal form of lymphatic cancer. He was 42. He told his wife, Wanda, that he believed the cancer was caused by excessive exposure to radiation. Kelly, who had been the Army commander of Japan Island in the Pacific in 1957-58, witnessed 22 detonations of nuclear weapons.

"Orville used to tell me they'd swim in the lagoon where they blew up the bomb," says Wanda Kelly. "Testing took place all the time, before he got there. You know, there was radiation all over the place."

Orville Kelly filed claims with the Veterans Administration for medical treatment and disability compensation. They were denied because the illness did not show up within a year of his discharge, and later because he had not been exposed to enough radiation. "He had to prove they'd only measured him for five months," says Wanda Kelly.

In 1979, the Kellys formed the National Association of Atomic Veterans, to lobby on behalf of an estimated 250,000 U.S. servicemen who were exposed to radiation during the occupation of Hiroshima and Nagasaki and during the atmospheric tests to the Pacific and the American southwest between 1946 and 1962. They were exposed at a time when authorities knew little about the long-term dangers of radiation.

Dr. Edward A. Martell of the National Center for Atmospheric Research — a radiochemist who participated in four test series in the early 1950s — testified at a recent congressional hearing that film badges worn by servicemen near the testing sites often did not properly measure the radiation. He believes they may have inhaled fallout.

According to the VA, 3,325 veterans have filed for compensation as a result of radiation exposure. Only 2,321 of them have shown medical conditions requiring treatment. So far, the VA has allowed 29 claims as a result of atomic testing and 55 claims as a result of radiation exposure from other sources.

It finally allowed Kelly's claim in November 1979. He died seven months later, but as a result of his tenacity, his widow is entitled to a pension, his four children can go to college on the GI bill and the family can get military health care.

Wanda Kelly says her organization has located 16 widows of veterans who died of leukemia and 22 cases of multiple myeloma, a deadly form of bone cancer, among 500 veterans of Hiroshima and Nagasaki who have contacted the group. Joint and muscle problems are also being reported, as well as stillbirths, birth defects and miscarriages.

The only government study done produced less alarming findings. The Centers for Disease Control studied veterans exposed in August 1957 to a nuclear blast in Nevada. It found a statistically significant increase in the incidence of leukemia, but no increase in other cancers and a lower overall death rate than could be expected.

Until recently, the VA treated only cancers or thyroid nodules, which are known effects of radiation exposure, as service-related illnesses. Guidelines issued this month enable veterans who were exposed to radiation in Japan or during the atmospheric testing programs to receive a physical, and if a medical problem is identified, it is up to the physician to establish that it was caused by something other than exposure to radiation.

Except for the CDC study, and for data being collected by Wanda Kelly's group, very little is known about what has happened to veterans exposed to radiation and whether they are suffering statistically normal or abnormal problems of reproduction and aging.

The Senate Veterans Committee has endorsed legislation that orders a long-term epidemiological study of the atomic veterans. Such a study would be costly and the record would be at best be circumstantial. But it would give atomic veterans a much better idea than they have now what price they and their children may have paid for their exposure.

The Washington Post.

ally, outer and inner — might serve what Auden, in his United Nations hymn, called "adventure, art, and peace."

DAVID DORRANCE.

Paris.

Supporting Dictators

Regarding "Reagan and Morality" (IHT Other Opinion, March 19-20):

Mr. Yoder of The Washington Post applauds Mr. Reagan because he "seandalized some centers of fashionable opinion by suggesting that national moralities matter."

At a time when it becomes known that the United States sheltered Nazi criminals the likes of Klaus Barbie, a call for national moralities is more than ever needed, though hardly from those who "violated" them or praise the violators. The U.S. has a long record of supporting the world's most brutal dictatorships, and the Reagan administration is anything but an exception. Bloodstained Guatemala rates "friendly"; the illegal military training of counter-revolutionary Nicaraguan guardsmen has been permitted and even encouraged; Mr. Reagan disregards torture and mass killings in El Salvador. I am joining "fashionable opinion."

LEONORE SUHL.

Portimao, Portugal.

FROM OUR APRIL 26 PAGES, 75 AND 50 YEARS AGO

1908: Ships Collide in Solent

LONDON — A distressing sea disaster occurred [yesterday] afternoon off Black Rock, Isle of Wight. The American liner St. Paul, driving through fog and snow, struck the British cruiser Gladiator, which was riding at anchor in the Solent. The St. Paul, bound for New York, was stealing her way through the needles when out of the fog and blinding snow loomed the Gladiator. The St. Paul immediately reversed her engines, but in vain. The vessels met with a tremendous shock. Amid shouts of dismay and resonant commands, the vessels backed off from one another. The cruiser sank in about twenty minutes. Recent reports indicate that the death roll numbers about a score. The St. Paul sustained a badly buckled bow.

1933: Farm Laborer Is Heir

NEWBRIDGE, Ireland — Through the discovery of a faded photograph of his mother, John Flynn, 60-year-old farm laborer, has inherited \$1,000,000 from the estate of his aunt, Mrs. Ida Wood, a wealthy reclusive, who died in March 1932. She was the widow of the publisher Benjamin Wood. Flynn's mother was Mrs. Wood's sister. The heir was told of his good fortune while he stood knee-deep in water, digging a ditch for his employer. Flynn is one of several relatives who will share the hoarded wealth of one of New York's strangest characters, a former society woman whose last days were spent in a dingy hotel room. Through her marriage with Wood, she inherited many properties, including the old New York "Daily News."

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ARTS / LEISURE

The Definitive Verdi: Vol. 1 in a 30-Year Music Project

By Donal Henahan

New York Times Service

NEW YORK — So few books about music or musicians can be taken seriously, except as exercises in historical fiction or career promotion, that the occasional worthwhile publication stands out like a swan on a duck pond.

Wordworth is, in fact, the mildest sort of praise that can be applied to "Rigoletto," the first volume to appear in "The Works of Giuseppe Verdi," a critical edition of the composer's music being put out jointly by the University of Chicago Press and G. Ricordi, the Italian publishing house. In many ways, this edition illustrates the state of the art in musical scholarship. The modern researcher is part of a team of specialists. Long gone are the days of the self-proclaimed individualists such as Alexander Wheelock Thayer, who decided in 1849 to write Beethoven's biography and went roving about Europe on his own hook in search of material. Today, his research would be subsidized by public or private philanthropy, and much of it could be done at home by means of microfilm or photocopied documents and tireless computers.

By current reckoning, the new Verdi project will take more than 30 years. The "Rigoletto" edition, which was financed by grants from two Chicagoans, Brenda D. and Lee A. Freeman, as well as the National Endowment for the Humanities, is therefore barely a beginning. Besides Verdi's 26 operas, there will be new editions of his other music. Already the project promises to be the most significant development in the history of Verdi scholarship, traditionally far behind the work done on behalf of other major composers, especially the Germans.

To some extent, this was the fault of Ricordi, which for many years chose to keep its trove of Verdi material close to its chest. About 25 years ago, however, the publisher began to allow freer access by scholars, with startling results. Most Verdi scores circulating in the world were discovered to be filled with printing errors, misreadings, cuts and other disfigurements. Little by little, Verdi specialists began to band together and share information to bring into sharper focus not only the scores themselves but biographical facts surrounding them. One recent result of this scholarship, for instance, has been Julian Budden's magnificent three-volume study, "The Operas of Verdi." Even so, some 80 years after the composer's death, there still was no complete edition of his music available.

Now we have the first installment in a complete re-examination of the scores under the overall editorship of Philip Gossett, with the aid of Budden, Martin Chusid, Francesco De Gregori, Ursula Günther and Giorgio Pestelli. Chusid is the editor in charge of the "Rigoletto" edition, whose \$200 cost includes a beautifully printed, sturdy bound full score, as well as a separate book of critical, bar-by-bar commentary that is staggering-



Giuseppe Verdi

ly detailed. The first performance of the new edition took place recently at the Vienna State Opera under Riccardo Muti's baton.

Not that every discovery or interpretation in this "Rigoletto" will be honored by every singer, conductor or director. It is neither possible nor desirable to put any work of art in a straitjacket. The eternal struggle between purity and practicality is not merely inevitable but one of the dynamic forces that keep the musical world going. As the editor himself makes clear, there are still many mysteries about mid-19th century performance practices, especially in the vocal realm. Sometimes in his autograph Verdi provides either tempo or dynamic indications for the voices. He does not always insist on this or that way of phrasing. The editor — and ultimately the performer — must make a choice.

Sometimes, there is no way to be certain which instruments he required: several low brass instruments were grouped together under the general term *bombardone* or *chimes* in Italian opera houses of the period. In modern performances, varieties of tuba probably would be substituted. When the *kanda*, or military band, is in action offstage Verdi does not invariably make clear which instruments it should include. Both in pit orchestra and band, there is much confusion about whether the bass drum is to be played alone or with cymbals. The question of how or whether to deploy the three instrumental ensembles he may have wanted playing simultaneously for 83 bars in the Introduction to Act I (pit orchestra, string orchestra on stage and stage band) is left unresolved. He seems to have intended this as a kind of homage or allusion to Mozart's use of three similar ensembles in the first-act finale of "Don Giovanni." However, those 83 bars appear only in Verdi's autograph and in no other contemporary source, which suggests that he agreed to delete them at the premiere because of performance complications. Chusid suggests that "With modern conducting techniques and closed-circuit television, performances following Verdi's original intentions have become possible and may well prove successful."

However, the modern-day conductor of "Rigoletto" has an identity problem: He is a phantom, historically speaking. At the time "Rigoletto" was first produced in Venice, in 1851, Italian operas were performed without a conductor. The concertmaster gave whatever cues were thought necessary both for stage and pit. By modern standards, ensemble must have been anything but precise.

Singers, moreover, almost certainly went their own way more blithely than they do now, which might account for the comparative scarcity of instructions as to vocal phrasing, accent, tempo and embellishment. There is some evidence that by the time he wrote "Rigoletto" Verdi was in a mood to throttle singers who decorated his vocal lines even a little. Certainly his last operas, "Otello" and "Falstaff," provide little opportunity for ad lib tinkering. But as a younger composer, too, he may have felt just as strongly about the matter without yet daring to go against a tradition that put singers at the center of the musical universe.

But who knows for sure? Chusid

does not dodge this issue: "To what extent did singers of Verdi's time take liberties with the vocal lines of 'Rigoletto'? Did they improvise cadenzas, provide variations or interpolate high notes? Unfortunately, we know relatively little in this crucial area." So, even in an edition as fanatically investigated and meticulously annotated as this "Rigoletto," some black holes of scholarship still appear. At every step, the editor of any such critical version must face contradictions, confusions and ambiguities, and at every step choices must be made, some of them Procrustean.

Since Verdi never expected his full score of "Rigoletto" to be published, he was not always at pains

to spell out details. From page to page, he can contradict himself. Sometimes he will correct one obvious error, then overlook another. Sometimes he writes in an obviously wrong clef, forgets the register of an instrumental part or even forgets to continue writing out the part, particularly after a page turn. In many instances, the editor is not able to discover what Verdi meant and must make a Draconian decision. In "Rigoletto," at least, these choices do not often seriously alter the flow of the music as we have come to know it, probably because Verdi's autograph is, in Chusid's words, "a document of remarkable clarity," in spite of its blurs and smudges and minor deformities of craftsmanship.



Mion-Miou (right), Isabelle Huppert in "Coup de foudre."

Diane Kurys Scores 'Coup' in Third Film

Thomas Quinn Curtiss

International Herald Tribune

PARIS — Diane Kurys made her debut as a director with "Diabolo Mente," a minor movie about minors whose favorite tittle bears the name of the title. Done with disarming simplicity and light but never condescending humor, it had a breezy April freshness. Her second try, "Cocktail Molotov," attempted to repeat the trick, but this time its teen-agers, eagerly pricking up their ears to learn belatedly of the 1968 student riots as remembered by their elders, were of transparent fabrication and evoked only yawns.

In her Opus 3, "Coup de foudre," she has quit child psychology for grown-ups and tackles the mysteries of two marriages that go awry. Here is a curious story related with surprising command. It traces the initial sparks to the lesbianism-kiss dominant in the wives. This analysis is sufficiently audacious to probably augment the film's box-office appeal, but the treatment, though candid, has serious dignity and theatrical subtlety, disclosing Kurys as a scriptwriter and director of uncommon skill.

In a prologue we meet Lena, a Jewish girl of Russian origin who is a resident of France and who has been infatuated by the Nazis. In order to escape being deported she marries Michel, who is a French citizen.

The scene shifts to Lyons in the 1930s where the couple settles. Michel is a hard-working, hard-headed, pragmatic man devoted to the couple's two daughters. Lena, bored with her mate and household duties, meets Madeleine, whose little son attends the same school as the daughters. She, too, is a survivor in a sense. Her young husband has been killed in the Resistance and she has subsequently wed a neo-fascist actor. She has artistic yearnings and wants to go to Paris as dress designer. She divorces her husband and departs, eventually leaving Lena to follow her. Michel makes violent efforts to destroy their relationship, but finally resigns himself to the situation.

Kurys keeps a fast hold on the incidents of her narrative, avoiding threatening sensationalism, bathos and sentimentality. Notable is her knack for characterization. Not only are the two women convincingly drawn, but so are the two men — Michel, the roughneck mechanic, and Costa, the pallid comedian. Her picturing of the men strengthens her premise, and such careful portraiture of the males of the species by a feminine hand is unusual.

The casting is no less expert, with Isabelle Huppert as the desolate wife and with Mion-Miou (who has an amazing historicizing) rendering an admirable impersonation of the sapphire siren, Gey Marchand as the husband of the first and Jean-Pierre B  ri as the husband of the second, similarly are ideally suited to their assignments. As a theme song, Joe Howard's old barroom ballad, "I Wonder Who's Kissing Her Now," sung in English, is employed as a sardonic-grace note.

"La Belle captive" is the latest effort of Alain Robbe-Grillet, the pope of *le nouveau roman*, to transform himself into a film auteur.

On this occasion his screen style has accelerated pace, but his scenario remains a guessing game, stubbornly, indeed proudly, enigmatic. It is based on the optical illusion detected by a young, paranoid detective who becomes obsessed by the image of a girl he meets but once in a nightclub. She strangely vanishes and, unable to find any trace of her, he dreams that she has encountered foul play, seeing her murdered in various versions.

Robbe-Grillet, as is his wont, supplies no clues to the misadventure. Is what seems to happen real or is it only a mad nightmare? He limits references to the proceedings to aesthetic terms alone. Here in his photography and theatrical approach he is obviously under the influence of the work of the Surrealist painter Magritte. Involved in the proceedings are Daniel Mesguich, C  cile Claire, Daniel Emilfork, Gabrielle Lazure and Fran  ois Chautauque.

There is an adage that every movie must end in a change. Some movies change everything else.

One sample of this procedure is "Effraction" of Daniel Duval. A fat gangster, having robbed a bank and shot down his accomplices to profit alone from the loot, kidnaps a young couple and holds them hostages in an interminable series of chases until at last — well, see for yourself. Jacques Villaret is the obese thug and Mar  ne Jobert and Bruno Cremer the harassed lovers.

Another French thriller, "Un D  m  che de f  ," has strong performances by Jean Rochefort and Victor Lanoux and an interesting but undeveloped script. A policeman in middle life, fearing the future, deserts the law for criminal practice and deserts his family to take up with a young slut. The circumstances provide inviting possibilities for a powerful melodrama, but what emerges is the routine cops-and-robbers folderol.

Joseph Wechsberg's Food Vistas

By Miri Sheraton

New York Times Service

NEW YORK — There are about two dozen books that I cherish because, in one way or another, each changed my life or my view of life, which is perhaps the same thing. Not too surprisingly, several are about food and served as consciousness-raisers, tipping me off that there was more to that subject than originally met my palate.

Foremost among them is "Blue Trout and Black Truffles," a deliciously rich memoir and appreciation of food written by Joseph Wechsberg, who died in Vienna earlier this month. Published in 1953, the book recounted the author's journey from a childhood diet of frankfurters and cocoa to the haute-cuisine miracles cooked up for him by such great French chefs as Michel Gu  lard and the late Fernand Point.

A skillful and amusing writer, Wechsberg took me on a delectable journey that began with the plain, sturdy cooking of his native Czechoslovakia through the more baroque splendor of dishes in Vienna and, finally, to the elegant subtleties of French food, which he discovered as a music student in Paris.

Wechsberg, an accomplished violinist as well as a journalist and essayist, wrote most enticingly about the good life — about cruise ships and grand hotels, concerts and museums, merchant bankers and divas, wines, wines and violins, and, most temptingly of all, of his favorite cities, Paris, Vienna and Prague. Although he wrote the text for "The Cooking of Vienna's Empire," published by Time-Life Books, Wechsberg was too broad-ranging a journalist to be described by the narrow designation "food writer." But food brought out the best in him, whether in New Yorker profiles of great chefs and restaurateurs or in the original Holiday magazine, to which he was a frequent contributor.

"Blue Trout and Black Truffles" remains my favorite among his works, and I doubt that I ever put fork and knife to boiled beef without thinking of his essay on the dish. Describing each of the 25 cuts that connoisseurs in Vienna favored for it, he said, "You

didn't merely order 'boiled beef' — you wouldn't step into Tiffany's and ask for 'a stone' — but made it clear exactly what you wanted." He went on: "Boiled beef was not a dish, it was a way of life. Citizens of Danube capital, venturing into hostile foreign lands where boiled beef was simply boiled beef, would take Viennese cookbooks along that contained the anatomical diagram of a steer. This was a wise precaution."

The very idea that boiled beef was a dish worthy of connoisseurship was news to me, and encouraging news at that. I had grown up with it and loved it, but it hardly seemed "fancy" enough to inspire poetic prose. Wechsberg knew better, and he was sure of himself. He was willing to celebrate and give serious attention to any food that was good.

The other lesson Wechsberg taught was that it is impossible to appreciate food without being aware of the life that goes on around it. Food was the centerpiece of "Blue Trout," but as appreciated and written about by this expansive bon vivant, it was inseparable from the customs, tone and temperament, the architecture and even the music of a place. What I am forever grateful to him for is not that he taught me any specifics about food but that he was one of the writers who taught me how to see.

As an incurable daydreamer, I have often conjured up fantasy meals that I would love to share with some of the world's great eaters. Imagine, as I often do, having lunch with Orson Welles in Paris, dinner with Fellini in Rome and any meal with M.F.K. Fisher in her native California. There are dozens of people I would love to eat with, and high on that list was Joseph Wechsberg.

Since this all takes place in my imagination anyway, perhaps it is not too late to share with him a *bouillabaisse* in Marseilles, a *Balatoni fogas* to start with at Gundel's in Budapest or a *Jause* in a Viennese *konditorei*, where that midafternoon snack consisted of several large cups of coffee with cloudlets of whipped cream, bread and sweet butter, *Gugelhupf* (surely the world's best pound cake) and a variety of fruit, chocolate and custard-laden pastries.

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ASAHI EVENING NEWS

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NYSE Index

	High	Low	C
Composite	92.34	91.29	9
Industrials	104.45	105.22	10
Transp.	87.11	85.70	8

NYSE Most Active	
	Sales C
Am Motors	3,120,000
Chrysler	1,773,000

Insist Inv	919,700
Gen Motors	818,700
Sears/Roeb	818,600
IBM	775,100
Sony Corp	764,900
Amer T & T	733,600
Black Deck	710,500
Goodyear	693,300
Zenith R	679,700
Ford/Mot	672,200

Tables include the nationwide prices up to the closing on Wall Street.

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(in million of FF)

Statement of income

	1982	1981
Net interest income	101.7	67.7
Fees, commissions & other income	72.7	52.1
	174.4	119.8
General and administrative expenses	90.5	69.8
Depreciation and amortization	4.1	2.8
Provisions	49.0	16.3
	143.6	88.9

NET INCOME

Guarantees in favor of banks & other financial institutions	691.8	961.1
Guarantees in favor of customers	1,182.7	790.2
Confirmed credits in favor of customers	438.1	332.9

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Revenue and profits, in millions, are in local currencies unless otherwise indicated.

France			Kellogg		
Schneider			1st Qtr: 1962		
Revenue	1763	1961	Revenue	1063	1961
Net Inc.	346	381	Net Inc.	571	611
Per Share	1.82	1.96	Per Share	2.87	3.10
1962-72			Martell Lynch & Co.		
Japan			1st Qtr: 1962		
Asahi Glass			Revenue		
Revenue	63,560	1961	Revenue	77.9	77.9
Net Inc.	22,228	22,550	Per Share	1.77	1.77
Per Share	22.28	22.55	National Tea		
United States			1st Qtr: 1962		
American Brands			Revenue		
1st Qtr: 1962	1961	1962	Revenue	26.3	26.3
Revenue	1,763	1,961	Net Inc.	5.71	5.71
Net Inc.	346	381	Per Share	1.82	1.96
Per Share	1.82	1.96	Pennzoil		
Ashtland Oil			1st Qtr: 1962		
2nd Qtr: 1962	1961	1962	Revenue	11.2	11.2
Revenue	1,452	1,452	Net Inc.	2.22	2.22
Net Inc.	342	342	Per Share	0.77	0.77
Per Share	3.42	3.42	Richmond-Vicks		
Avon Products			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	26.4	26.4
Revenue	468	468	Net Inc.	5.71	5.71
Net Inc.	93	93	Per Share	1.82	1.82
Per Share	4.68	4.68	Scherer-Plough		
Bechtel Foods			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	47.1	47.1
Revenue	2,300	2,300	Net Inc.	9.42	9.42
Net Inc.	471	471	Per Share	1.82	1.82
Per Share	2.30	2.30	Seafirst		
Browning-Ferris			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	1.44	1.44
Revenue	17.18	17.18	Net Inc.	0.28	0.28
Net Inc.	3.42	3.42	Per Share	0.28	0.28
Per Share	17.18	17.18	Seas Roebuck & Co.		
Chemical Bank			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	16.4	16.4
Revenue	39.4	39.4	Net Inc.	3.28	3.28
Net Inc.	1.49	1.49	Per Share	1.62	1.62
Per Share	39.4	39.4	Smithline		
Coca-Cola			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	12.4	12.4
Revenue	1,763	1,763	Net Inc.	2.48	2.48
Net Inc.	346	346	Per Share	1.24	1.24
Per Share	1.763	1.763	Stand Oil Indiana		
Coca-Cola			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	7.50	7.50
Revenue	1,763	1,763	Net Inc.	1.50	1.50
Net Inc.	346	346	Per Share	1.50	1.50
Per Share	1.763	1.763	Storopac Tech.		
Cummins			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	1.10	1.10
Revenue	22.74	22.74	Net Inc.	0.22	0.22
Net Inc.	4.54	4.54	Per Share	0.22	0.22
Per Share	22.74	22.74	Union Oil Cal.		
Detroit Diesel			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	2.47	2.47
Revenue	82.4	82.4	Net Inc.	0.47	0.47
Net Inc.	16.4	16.4	Per Share	0.47	0.47
Per Share	82.4	82.4	William Cos.		
Eaton			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	20.1	20.1
Revenue	627.2	687.7	Net Inc.	8.58	8.58
Net Inc.	126	136	Per Share	8.58	8.58
Per Share	6.27	6.88	Winn-Dixie Stores		
Hershey Foods			1st Qtr: 1962		
1st Qtr: 1962	1961	1962	Revenue	1.62	1.62
Revenue	2.81	2.81	Net Inc.	0.37	0.37
Net Inc.	0.56	0.56	Per Share	0.37	0.37
Per Share	2.81	2.81	9 Months: 1962		
Hughes Tool			Revenue		
1st Qtr: 1962	1961	1962	Revenue	5.60	5.60
Revenue	21.9	21.9	Net Inc.	1.19	1.19
Net Inc.	4.38	4.38	Per Share	1.19	1.19
Per Share	21.9	21.9	9 Months: 1962		
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1st Qtr: 1962	1961	1962	Revenue	5.60	5.60
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Net Inc.	4.38	4.38	Per Share	1.19	1.19
Per Share	21.9	21.9	9 Months: 1962		
Hughes Tool			Revenue		
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Sole's figures are unrealistic. Various steps can be taken to reduce the previous 20 week plus the current week, but not to the 10 week level. The following are some of the steps that can be taken to reduce the current week, but not to the 10 week level. The following are some of the steps that can be taken to reduce the current week, but not to the 10 week level.

A New Devaluation Expected This Year

By Robert Wazack

ROME — On March 21, the Italian lira was devalued 2.5 percent against the seven other currencies in the European Monetary System. The consensus among leading Italian financial, banking and industry figures is that another devaluation will be needed before the end of the year.

The March devaluation, they said, was a foregone conclusion — indeed, should probably have been done several months earlier. Some economists think the lira remains overvalued, particularly against the French franc, which was also devalued in the EMS.

There is consensus on three other points as well. First, the devaluation will have only a slightly positive, short-run effect on Italy's economy, in that it will tend to increase exports and decrease imports.

Second, it will add about one point to Italy's inflation rate, which was 16.4 percent in 1982 and 14.9 percent for the first quarter of 1983. Third, it will do nothing to solve such high government deficits, high inflation and high interest rates — important factors in devaluations.

Previous devaluations have not helped much, either. Since the EMS was established four years ago, the lira has been devalued three other times: by 6 percent in March 1981, by 3 percent in October 1981 and by 2.75 percent in June 1982.

Italian reserves, generally strong, nevertheless have had to be used frequently to shore up the lira. Total reserves, according to the Bank of Italy, fell to \$3.16 trillion lire (\$37.97 billion) on March 1, from \$49.67 billion at the beginning of 1982, a decline of 24 percent. Gold reserves, now \$23.18 billion, have held relatively steady, while foreign currency and European Currency Unit holdings have dwindled as the bank has acted to turn back speculation against the lira.

Unlike all other EMS currencies, which are allowed to fluctuate by a margin of 2.5 percent, the lira, in recognition of its precarious situation, has been permitted a 6-percent fluctuation. Over the past six years, according to Carlo Ciampi, the Bank of Italy's governor, the combination of devaluations and adjustments within the EMS margin has resulted in the lira losing an average of 6 percent a year against other currencies since the creation of the EMS. This, he said, is an improvement over the pre-EMS period. In 1971-79, for example, the lira lost an average of 8 percent each year against the same currencies.

To defend the lira, Italy has practiced an extremely tight mon-

etary policy during the last four years. After the recent EMS realignment, Mr. Ciampi said there were no clear signs that this policy could be eased. Decreases in the discount rate and in interest rates — if they occur — will have to be slow and gradual.

In November, the Foreign Commerce Ministry adopted strong measures to prevent exporters from speculating against the fall of the lira. Under the old regulations, exporters were permitted to authorize 360-day deferred payments in foreign currencies to importers. Now such deferred payments require exporters to deposit 70 percent of the trade value in foreign currencies in Italian banks. The result, economists said, should be to prevent an annual foreign exchange loss of about \$4 billion.

On the monetary front, the best hope for a stable lira lies with the combination of a stronger Deutsche mark and a weaker dollar. Like Japan, Italy is a resource-poor country and so depends heavily on dollar-denominated imports of prime materials. In 1982, the dollar gained 23 percent against the lira, compared to about 12 percent for the mark. This significantly increased the amount Italy paid to import such commodities as oil, whose price decreases were more than offset by the dollar's gains. A weaker dollar in this time of declining international commodity prices would improve Italy's trade picture.

Italy showed a negative trade balance with West Germany, its biggest trading partner, of \$2 billion in 1981 and \$2.3 billion in 1982. The Italian government hopes that the mark's 5-percent EMS revaluation, in conjunction with the lira's devaluation, will make Italian goods more competitive in the West German market and lure more German tourists to Italy this summer.

Any real recovery for the lira, however, depends upon a more coherent Italian fiscal policy, and here the outlook is bleak. Even with falling oil prices, the government will be lucky to reduce inflation to its 13 percent target for 1983 (and 10 percent for 1984). Even more improbable is that it can contain the budget deficit to the target of 70-trillion lire (\$50 billion).

With the public sector borrowing requirement eating up the great majority of available credit, Italian companies have had to resort increasingly to borrowing abroad. Total foreign debt, 70 percent of it denominated in dollars, is now \$51 billion if all short-, medium- and long-term loans are figured in. The combination of high interest rates

(Continued on Following Page)

Herald Tribune

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TUESDAY, APRIL 26, 1983

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BANKING AND FINANCE IN ITALY

A SPECIAL REPORT



Workers ending their shift at the Alfa Romeo Alfased plant.

'The Magic' Has Gone; Problems Persist

ROME — In 1979-80, when Italian economic growth totaled 10 percent, second only to Japan in the industrialized world, there was talk of Italy's economic "magic." One wondered how an economy that had so many problems could show so much vitality.

There is less talk these days of Italian economic magic: there is more talk of declining investments, structural weaknesses and failure to act. Most other Western countries have reduced inflation, albeit at the price of higher unemployment. Italy has high unemployment — 9 to 10.5 percent — and high inflation — 16.4 percent last year. Growth has stopped.

Moreover, Italy has high interest rates, gaping government deficits and deficits on merchandise trade as well as current accounts.

A 1981 study made by Mediobanca, one of Italy's 84 special long-term credit institutions — banks are not permitted to make loans of more than 18 months — pointed out the degree to which high interest rates had eaten into profits. Once high interest rates were deducted from profits, little was left over for making domestic investments. This in turn, slowed the country's once dynamic economic growth.

The 1,176 companies surveyed by Mediobanca reported that interest payments were con-

suming an unsettling 70 percent of pre-interest profits, or 6.4 percent of net sales. For state-owned companies, the figure was 9.8 percent of net sales.

Financial sources were unanimous in saying they believed this situation could only have worsened in the two years since the study was made. To revive Italy's economy, they said, investments must be revived.

Other factors retarding investment are the shortage of venture capital, attributable to a 40-percent capital gains tax, a small, archaic stock market and the lack of an over-the-counter market; the presence of only a small corporate bond market; and the severe undercapitalization of Italian companies public and private.

"The undercapitalization of Italian companies is one of the country's most severe economic problems," said Felice Gianani, director-general of the Italian bankers' association. "It is one of the primary causes of declining investment."

On the positive side, most companies have accumulated large holdings of short-term loans in anticipation of a drop in interest rates. Once rates do go down, said financial sources, there should be a sudden surge in demand for medi-

um- and long-term loans, and hence new investment.

But many bankers fear this scenario. They say it could set off more inflation — another reason for bringing rates down slowly.

While demand for credit is low now — about 3 percent below the credit ceiling, which itself is low — financiers say it will pick up as soon as rates come down. Felice Bonardi, president of Mediobanca for the Piedmont region, points out that credit demand increased 50 percent after a loan obtained from the European Investment Bank permitted him to offer terms locally of 15 to 15.5 percent.

Mr. Bonardi proposes that the government do something similar, making loans of \$700 million to credit agencies to be used for loans to small and medium-sized companies. This sum would be enough, he said, to bring lending rates to these companies below 16 percent.

The government is clearly trying to stimulate investment. A new law allows companies to revalue assets upward while providing them with more tax exemptions and better depreciation allowances. A 1977 law offers a mix of state capital, cheap government loans and reduced bank

(Continued on Page 11S)

Treasury Pledges To Trim Deficit

By John Phillips

ROME — The Italian budget deficit last year reached 15.6 percent of the gross domestic product, a record for an industrial nation. It is widely regarded as the major structural cause of Italy's high inflation.

Most member countries of the Organization for Economic Cooperation and Development held their public-sector borrowing requirements to 3 or 4 percent of GDP. Treasury Ministry officials in Rome, however, are reported to say that, even under a model based on optimistic assumptions about the behavior of the economy, the best they expect is to lower the deficit to about 11 percent, or an estimated 63.5 trillion lire (\$45 billion), from a target of 70 trillion, by the end of 1983.

Treasury Minister Giovanni Gorla, 39, has pledged to hold the 1983 public-sector borrowing requirements to 71 trillion lire — the same money level as last year — which would be a significant drop in real terms and less than 14 percent of expected GDP in 1983.

But foreign bankers are skeptical. Long worried by the profligate tendencies of successive Italian governments, they are asking what chance Mr. Gorla has of succeeding and whether the target will make much difference to the economy if it is just a small part of overspending.

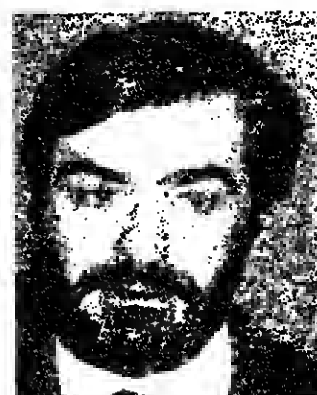
On March 29, the Chamber of Deputies, the lower house of Parliament, passed a package of 1983 budget provisions and financial legislation that theoretically would enable Mr. Gorla to achieve his objective.

The package, expected to be approved by the Senate at the end of April with implementation beginning in May, has been widely criticized for not going far enough, concentrating too much on raising new revenue by fiscal policy and through improved pricing policy in state-owned industries instead of making incisions and lopping off expendable branches of public spending.

The critics charge that the government appears to have done little to prevent the channeling of resources into consumption and away from private investment.

Mr. Gorla has said publicly, however, that the effective scope for cutting expenditure is only 2 or 3 percent. About 60 percent of the public-sector borrowing requirements are for wages, pensions and transfers to local authorities. A further 15 to 20 percent are interest payments.

The Treasury minister maintained that, even by cutting the deficit by what might seem a modest amount, he also would cut



Giovanni Gorla

the inflation rate, which he wants to bring down to 13 percent this year against 16 percent in 1982. That, in turn, would cut the cost of servicing debt, Mr. Gorla said.

Economists in Italy say the causes of the deficit are highly complex and rooted in historic factors. Structural causes include, for example, the costly system of state-subsidized layoffs, under which workers receive almost full salary. Another heavy burden is the country's outdated and frequently loss-making state-run industries.

Then there is the mostly free but highly inefficient national health service. It is becoming more costly with inflation, an aging population and the various social problems caused by the recession. And the pension system is another apparently bottomless pit. The Institute for Social Security, the state agency that administers the various pension plans, had an accumulated deficit of 121,376 billion lire last year. It is forecast that, without action, the deficit will rise to 133,704 billion lire this year. Italy has less than 13 million pensioners, but the total figure could reach 20 million by the year 2000.

About 30 percent of public spending allocations are passed on to regional, provincial and city governments, several of which recently have been investigated on charges of bribery and waste of public money.

The rising public deficit has been squeezing the private sector's share of resources. In 1960 the public sector absorbed 15 percent of total internal credit; by 1970 the figure was 40 percent and in 1982 it was estimated at 66 percent.

As late as 1981 Italian governments were making only token efforts to stop this trend. The first local agency to raise the alarm seriously was the Bank of Italy, the central bank, which between the spring of 1981 and the summer of

(Continued on Following Page)

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AUGUST 6TH, 1982 AN IMPORTANT EVENT IN THE HISTORY OF ITALIAN BANKING.

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* Banca Agricola Commerciale di Reggio Emilia, Banca Nazionale del Lavoro, Banca Popolare di Milano, Banca S. Paolo - Brescia, Credito Romagnolo, IMI - Istituto Mobiliare Italiano, Istituto Bancario San Paolo di Torino.

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BANKING AND FINANCE IN ITALY

Interest Rates: Strong Campaign for a Cut

Special to the IHT

ROME — Italian industrial manufacturers, faced with plunging domestic demand as recession belatedly grips the economy, are conducting a vociferous campaign to achieve a substantial reduction in Italian interest rates, which are the highest in Europe.

The campaign, which so far has met with only limited success, calls into question the efficiency of Italy's fragmented and traditionally cartelized banking system.

The banks have responded with some hesitation, but at the end of last month the bankers' association cautiously announced a cut in the indicative prime rate, the second this year, from 20 to 19.5 percent.

The cut has done little to placate Italy's industrial employers, represented by Confindustria, the general confederation of Italian industry, and by Confindustria, the small and medium-sized industries' federation.

Carlo Ferroni, a director at Confindustria, says real interest rates are higher now than they were a year ago since inflation has come down faster than bank lending rates.

But Silvio Golzio, chairman of the bankers' association, says no big cut in lending rates is possible until borrowing rates come down.

This he rules out until the Treasury further reduces its competitive rates on Treasury bills that help finance the increasingly large public-sector deficit, which is expected to be at least 63.5 trillion lire (\$45 billion) this year.

Meanwhile, Treasury Minister Giovanni Goria, at 39 the youngest member of the cabinet, says he believes the time is ripe for further interest-rate cuts.

The differential between Treasury-bill rates and average bank interest rates, he said, rose from an average of about 3 percent in 1979 and 1980 to 4.8 percent by the end of last year. Mr. Goria argues that the banks should cut their rates to narrow the gap.

He also says credit growth in recent months has stayed well under the prescribed limit known as the *massimale*, leaving ample room for expansion. The Bank of Italy has announced its intention to abolish the *massimale* in June, hoping to induce increased competition in the banking sector.

The manufacturers, while maintaining pressure on the banks to bring down lending rates, are directing the main thrust of their campaign against what they see as inefficiency and lack of transparency in the banking system.

"The banks publicize their prime rate, and since last year they have announced their top rate for corporate customers, but that does not tell you anything about the real cost of credit to the average company borrower," an economist at Confindustria said.

Italian banks impose a wide range of discretionary charges on customers — from quarterly commissions on overdraft facilities to telex bills — which make the final cost of a loan the subject of lengthy horse-trading.

The economists at Confindustria say the size of a firm ultimately determines what it pays for a loan.

"But few companies have the clout of Fiat or Olivetti and many of the medium-sized companies that form the backbone of the economy pay 6 percent above prime," one said.

Many bankers say, meanwhile, that all but the biggest companies are reluctant to present a clear picture of their financial situation, making risk assessment difficult.

Companies listed on the Milan stock exchange are required to present accounts every six months to Consob, the stock exchange watchdog body, but these figures are confidential and sketchy. For most medium-sized and small companies not listed on the exchange, the state of accounts is a mystery.

Confindustria is also critical of the banks' spread between lending and borrowing rates, which is twice as wide as in most European Community countries.

The banks say the spread is justified by the low interest rates offered by the Bank of Italy on compulsory reserve requirements and by overvaluing imposed by the trade unions.

They also say that many of their discretionary charges do not cover the cost of services offered.

But recent developments suggest that the leading banks may be emerging from their traditional torpor and attempting to compete with each other.

In February, in an unprecedented

move, the Banca Nazionale del Lavoro, one of Italy's biggest banks, cut its prime rate to 19.5 percent, one-half percentage point lower than the bankers' association indicative level at the time.

At the end of March the Istituto Bancario San Paolo di Torino cut interest rates on export credits by two percentage points.

"The drive toward increased competition among the banks is bearing its first real fruits," said a commentator in the Milan financial daily *Il Sole* 24 Ore.

Luigi Coccoi, chairman of the Istituto Bancario San Paolo di Torino, called at the last bankers' association meeting for a bold move to bring down interest rates and said an overhaul of the interest rate structure was overdue.

Observers now wonder whether the San Paolo and other leading banks will follow the example of the Banca Nazionale del Lavoro in cutting the prime.

But economists at Confindustria, who welcome the hesitant signs of a move toward increased competition among the larger banks, believe the main obstacle to progress is the smaller provincial banks, which make up a big proportion of Italy's more than 1,000 banks.

"The bigger banks are full of good intentions," a banker said, "but there is a risk that the innovative trend emanating from Milan and Rome will simply be neutralized by the provincial banks, particularly those in the relatively undeveloped south of the country."

Banking Industry Maintains Optimism

ROME — Recent times have not been happy for Italian banking and finance, with international scandals, strikes by bank employees, resignations and decreased bank profits, but bankers in Italy are optimistic about the future.

A recent study by the Istituto per Relazioni Industriali concluded that Italian banks were inefficient, provincial and backward. "The Italian banking system is 10 years behind the rest of Europe," wrote Nicola Cacace, ISRI president.

And a study by the Organization for Economic Cooperation and Development on European banking systems showed that 80 percent of operating expenses in Italian banks were for labor, compared to an European average of 50 percent. Shortly thereafter, about 280,000 Italian bank employees staged a paralyzing series of "hiccups" strikes.

Moreover, Italian banks are being attacked by right-of-center industrialists and left-of-center la-

bor unions, both charging that lending rates, which range from 20 to 25 percent, are too high.

Guido Rossi, president of CONSOB, the stock market's regulatory agency, quit in August, following a dispute with the Bank of Italy and the Treasury minister over handling of the Banco Ambrosiano affair. Then Rinaldo Ossola, president of the Banco di Napoli, one of Italy's largest banks, resigned, charging that the local Christian Democratic Party was meddling in bank affairs.

In 1982, although deposit growth surged to 18.1 percent, safely above the 16.4-percent inflation rate, profits decreased. The reasons, bankers said, were weak credit demand and the recession, which hit Italy later than other industrialized countries.

Yet Italian bankers remain optimistic. One reason is that the fallout from the Ambrosiano bank affair and other events seems to have peaked without causing any irreparable damage to the banks' reputations.

Another is the impending worldwide economic recovery.

"Ambrosiano was only a limited, very irregular experience which in no way can repeat itself," said Felice Giannini, director-general of the bankers' association. "There is no problem whatsoever with the solidity of Italy's banking system.... I predict very positive effects from an upsurge in the German economy, which should come soon. Recovery in the United States should follow. Italy's situation, as a result, should improve by the end of the year."

Meanwhile, top-level banking sources say the Bank of Italy will almost certainly eliminate credit ceilings in June. It is hoped that removing credit ceilings when both inflation and interest rates are high but recovery is imminent will produce a steady, gradual recovery that will not feed another inflationary round.

Bankers are also hopeful about the effects of overdue structural

changes. This month, for instance, a law took effect allowing for the creation of mutual funds. And standard banking tools such as certificates of deposit and standby credits, long available in other countries, are beginning to be used on a wide scale in Italy.

In addition, the Italian banking system is making a serious effort to automate — another area in which it has lagged. Finally, in accordance with an European Community directive, Italy is preparing to permit the free opening and closure of bank branches.

In January, according to the Bank of Italy, Italian banks had total assets of 369 trillion lire (\$261.8 billion). However, more than half these assets, according to Francesco Parrillo, the banking association's vice president, are committed by regulation to activities of functions that earn considerably less than the prime rate.

—ROBERT WAZELA

New Hope for Stock Exchange Reform Projects

ROME — After several months of bureaucratic limbo, Italy's National Commission for Companies and the Stock Exchange (CONSOB) has a new president and, following recent legislation, new and broader powers that could stimulate lagging stock exchange reform projects.

In January, Vincenzo Milazzo, Italian state controller since 1974, was appointed president of CONSOB to replace Guido Rossi, a Milanese lawyer, who resigned last summer following differences with the Bank of Italy over methods adopted to deal with the Ambrosiano Bank scandal.

The other four members of CONSOB's governing commission, Bruno Pazzi, Aldo Polinetti, Gianni Pasini and Vincenzo Matturi, come from private industry, banking, accounting and the stock exchange, respectively. The appointment of Mr. Milazzo, 60, a longtime civil servant with expert knowledge of state accounting and finance, is expected to fill a significant gap.

"There are really no new or old policies," said Mr. Milazzo, pointing out that as in the past CONSOB's main task will be to encourage Italy's 10 small stock exchanges — 157 companies are quoted on the largest in Milan — to stimulate savings and thus risk-capital formation.

Given the obstacles presented in a country where there is no real tradition — by either investor or entrepreneur — of reliance on the secondary financial market, this has not been easy. New legislation, however, may make it easier for CONSOB's small staff to carry on with its goal of guaranteeing full, fair disclosure to the potential investor.

CONSOB's 1974 charter gave it regulatory control over the companies quoted on the stock exchanges, as well as responsibilities regarding convertible bonds, unlisted securities and insider trading. A new law establishing Italian mutual funds, effective April 12, extended CONSOB's powers to all forms of public savings offers, except bank deposits and the mutual funds, which fall under the direct control of the Bank of Italy.

All such offers will now have to be preceded by the publication of an official prospectus providing information regarding the economic and financial activity of the company involved. Failure to comply no longer means incurring a small fine, but a financial penalty equal to between one-fourth and one-half of the value of the entire operation. CONSOB officials said they were pleased about the enactment of the mutual funds bill. Although its effect on Italy's small exchanges will be limited, the law should have

a stabilizing effect while stimulating trading on the exchanges by channeling small investors' savings in that direction.

There also have been cheers for the recent passage of another long-delayed bill, the "Visentini-bis," which will allow companies to revalue their capital to take account of the spiraling inflation of the last five years. The results of this bill could raise the nominal value of some stocks and, perhaps more importantly, of dividends.

But, said Mr. Milazzo, "While these are important steps forward they will not solve the basic underlying problems." One difficulty is the inadequate number of listings — a fraction of those in London or New York. The restricted character of the *Istituto*, as well as the reduced number of shares available for trading because of a 20-year tradi-

tion of off-board trading by banks and other financial institutions, has made the Italian stock market susceptible to speculation. The real value of shares is distorted and extremes of variability are allowed that discourage the small investor. In 1981, 8.5 percent of Italian family savings went into securities compared to 36 percent in bank deposits.

To encourage small investors, tax incentives under discussion would make stock market dividends as attractive as the tax-exempt, high-yield Treasury bills.

With its summer 1981 collapse behind it, the Italian market nevertheless was depressed in 1982, closing with an overall loss of 14.3 percent. The first three months of 1983 registered an average gain of 31 percent, partly because of the passage of the mutual fund and Visentini laws and partly in response to the vigorous performance of Fiat and Generali (insurance) shares.

At one point the "comi" index climbed to 214.93 percent, the highest since October 1981. Subsequently, however, reportedly because of speculation, there has been a sharp drop in the market, while long-term investors await spring reports on company balance sheets and dividends.

—SARI GILBERT

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BANKING AND FINANCE IN ITALY

'Re-Industrialization' Of 2 State Companies: The Debate Continues

ROME — Italy's state-owned steel company, Finisider, a division of the Istituto per Ricostruzione Industriale, is suffering losses at the equivalent annual rate of \$140,000 for every one of its workers. SNAM, the state natural gas company owned by Ente Nazionale Idrocarburi, is poised to sign a 25-year gas contract with Algeria in which it will be paying 12 percent above the market price for a quantity of gas equal to about one-third of Italy's estimated future demand.

The debate over the "re-industrialization" or "re-structuring" of Italy's two giant state-owned holding companies, IRI and ENI, can be crystallized in these two facts. Finisider is losing money because it is making too much steel and employing too many workers. SNAM, which will receive government subsidies to cover its losses on the Algerian deal, will be signing the contract for political reasons.

Over-production, labor problems, politics: these factors underlie nearly every major investment decision IRI and ENI must make over the next decade.

The re-industrialization of these two companies poses many of the same questions that other Western companies and governments are trying to answer in attempts to revitalize such "mature" sectors as steel, chemicals, automobiles, shipbuilding and textiles — with one important difference.

Because IRI and ENI are Italian state companies with a combined 1982 turnover of about \$60 billion, or 20 percent of Italy's gross national product, the debate also touches on the most problematic areas of current Italian political life: a series of complex, interconnected scandals; political parties that muddle into personnel and management decisions; the bitter battle between the Christian Democrats and the Socialists within the four-party governing coalition; a slow-moving parliamentary system and an endemic inability to reach a consensus.

In 1982, IRI lost about \$2 billion and ENI about \$1 billion. About 70 percent of IRI's losses were attributable to steel, with sectors such as shipbuilding (Fincantieri) and automobiles (Alfa Romeo) also losing money. Among the many companies owned by IRI are the state airline Alitalia, the radio and television broadcasting company RAI, the telephone company SIP and three of Italy's five largest banks. With more than 500,000 employees, IRI is Europe's largest single employer.

ENI, however, is even bigger, with a turnover 25 percent higher than IRI's, although it employs fewer people (just under 200,000) and contains far fewer separate companies. Its biggest losses came in chemicals (Amic, Enoryl), textiles (Lancross), minerals (Samim) and nuclear fuel (Agip Nucleare). The petroleum operations (Agip, Agip Petroli, SNAM, Italgas) did relatively well in some areas and badly

in others. The best performers were the two major engineering divisions (Saipem, Snamprogetti).

In May 1980, Gianni De Michelis, a young Socialist minister for state participation, responsible for overseeing both IRI and ENI. Mr. De Michelis began a re-industrialization program that included massive government investment, cooperation with major Italian privately owned companies, joint ventures with foreign companies, structural reform of the two holding companies and "privatization" of some state holdings.

But Mr. De Michelis immediately faced IRI's and ENI's financial difficulties and was confronted with political problems before his program could be put into effect.

Between 1980-82, IRI received 39 percent or \$4.95 billion of \$12.69 billion appropriated, while ENI, with appropriations of \$4.90 billion, received 27 percent or \$1.31 billion. Nevertheless, the two companies proceeded with investment programs by borrowing — and at high interest rates. By the beginning of 1983, IRI was running a total debt of \$25 billion and ENI \$13.9 billion.

During Mr. De Michelis' tenure so far, the heads of both IRI and ENI already have changed several times, as per politics and personalities. Currently, Romano Prodi, an economist, is chairman of IRI, while Franco Reviglio, a former finance minister, is president of ENI.

According to recent press accounts, which ENI will neither confirm nor deny officially, Mr. Reviglio is preparing a revised five-year 1983-87 company program, scaling down requests for government money and reducing investments.

At IRI, meanwhile, Mr. Prodi has made blunt statements to union leaders and others about the need for production cuts and worker layoffs in money-losing sectors while channeling money into new technologies such as electronics. Mr. De Michelis, by contrast, wants to continue to invest in the "old" sectors in addition to investing in new ones.

For all his problems, Mr. De Michelis has achieved some success. The most notable examples are in chemicals, where ENI and Montedison have agreed upon a plan to divide production of various chemical products and to reduce ethylene output by 25 percent, and in telecommunications, where Italtel (IRI) has signed a major deal with the American firm GTE and where a second agreement, this time with either ITT or Ericsson, seems imminent.

Mr. De Michelis has frequently said that IRI and ENI will both be breaking even within a few years, a claim doubted by most observers, who say that as Italian government debts mount and the country's economic recovery is slow, the more likely prospect is for increasingly difficult battles over government appropriations.

— ROBERT WAZEKA

Payment by Cash Remains Rule, but Cards Spreading

ROME — While overstuffed wallets and jangling change purses are rapidly fading memories in much of the industrialized world, in Italy the reign of hard cash is only now beginning to falter.

In 1981, according to a study, there were fewer noncash transactions in Italy than in any other member country of the Organization for Economic Cooperation and Development. A more recent inquiry by an Italian economist comparing Italy and France, countries with similar-sized populations, showed that the French used cash for 22 percent of their purchases and the Italians for at least 50 percent.

That study, prepared by Italy's institute for industrial relations, also revealed that the number of checks issued and the number of checking accounts in Italy were only a third of those in France.

A similar lag exists for credit cards. Although their use in Italy is expanding, it still compares unfavorably with the United States, where plastic money has long ruled, nor with the other advanced countries of Europe.

Many stores in Italy give unofficial discounts to customers paying cash. Out-of-town checks often are looked at askance, even by top-drawer establishments. And many of Italy's thousands of small shops or restaurants, as well as some high-class outfits, refuse to take credit cards, presumably because of the 4 to 7 percent commissions that businesses pay to credit card companies.

The attachment of Italian buyers and sellers alike to the coin of the realm reflects a variety of factors — primarily, perhaps, a traditional association of cash with both solvency, past and future, and the esteem of one's neighbors.

"Credit cards frighten me. It would be so easy to lose control of one's spending," said a well-off Milanese lawyer who, despite a mounting crime rate, pockets thick wads of money because "the old system of cash is still the best."

The easy credit Italians often get from their neighborhood merchants, an uneasiness toward the intangible and unfamiliar, and a

lack of dynamism in the marketing policies of the financial and banking sectors are other reasons for the non-use of credit cards in Italy.

"I guess I should have a credit card," said a 45-year-old television producer who travels frequently in Italy, often finding himself in hotels that do not like to take checks. "But no one's ever really explained to me just what the advantages are."

According to the French-Italian study, the number of checks issued in Italy annually still is quite low — 1.5 million in 1982 — but the use of checks has been growing ever since a few years ago when Italian firms decided to reduce the risk of payroll robberies by paying monthly salaries through an employees' bank.

A survey prepared last fall by ABI, the Italian banking association, from a sample of 1,600 middle-income respondents, showed that 88 percent had checking accounts, but only 15 percent of that group wrote six or more checks a month. The majority, 62 percent, wrote fewer than four. The survey also showed that only 6.8 percent had check-cashing cards. And even more significantly, only 4.4 percent had credit cards.

Over the last decade, all the major credit cards — VISA, American Express, Diners Club, Eurocard and the Banci Commerciali's "Carta d'Identita" — have begun operations in Italy, but only recently have there been any real signs of the use of the cards taking off.

"You might say that until yesterday the credit card was basically unknown here," said Alfonso Bellini, assistant central manager of the credit card division of the Bank of America unit that distributes Bancamerica, used within Italy, and VISA for use outside the country.

The Bancamerica was introduced in Italy in 1969, reached 480,000 card holders by 1980 and now, thanks largely to the activity of its 196 associated banks, boasts 1.2 million (followed by American Express with about 150,000, Eurocard with 120,000, Diners with 80,000 and Carta d'Identita with 70,000).

— SARI GILBERT



Pensioners crowd around a Post Office window to pick up their checks.

Old-Age Pension System: Rising Deficit

By Sari Gilbert

ROME — The complex Italian pension system, swollen by duplication, waste and corruption, is deeply in the red, while a reform proposal continues to languish. The pension system weighs heavily on the Italian budget, whose deficit is currently about \$30 billion.

The 90-year-old Istituto Nazionale della Previdenza Sociale — reported a cash deficit last year of almost \$5 billion. That deficit is expected to grow to \$5.6 billion by the end of this year, despite additional funds allocated under the government's new budget law. INPS President Ruggero Ravenna, meanwhile, estimates that the operating deficit for 1983 will be \$8.8 billion.

Projections indicate that the accumulated deficit of the giant institute — which has been in deficit since 1978 — will reach \$24 billion at the end of this year and could reach \$51 billion at the end of 1985. It is an unattractive outlook for the Italian Treasury which, as in the past, will be expected to make up the difference. Asked what the situation could look like by the year 2000, Mr. Ravenna, a former trade union leader, said,

"It's better not to think about it."

Pension and social security systems throughout the Western world are currently in trouble, threatened by the double problem of aging populations and a decline in active contributors that is being aggravated by the current recession. But in Italy, local conditions are pushing the system toward bankruptcy. While everyone recognizes the problems, building a political consensus to deal with them has so far proven impossible in a country where about 16 million pensioners make up more than one-fourth of the population and close to 40 percent of the electorate.

After years of discussions, no action has been taken on proposals to put into the private sector much of the social security system, on a series of draft reform bills that would reorganize the more troublesome sectors like agriculture, or on a union-backed plan to rationalize the system. "All that has been done is to plug the holes with partial and confusing provisions," said Mr. Ravenna, who noted that laws on aspects of the pension system were passed on the average of once every two weeks during 1982.

One major problem is that INPS gradually has acquired a variety of welfare functions over the years that have little to do with its original social security charter. Mr. Ravenna would like to see the institute divested of those welfare functions in the interest of a balanced ledger sheet.

This year, only slightly more than half of the 97.8-trillion lire (\$70-billion) 1983 budget actually will go to pay retirement, disability and minimum "social" pensions to Italy's 800,000 elderly persons without income. The rest is paid out in unemployment benefits, family supplementary-income checks and sickness benefits that include the remnants of a long-standing tuberculosis assistance project.

Another problem is that the Italian social security system is very generous. Since 1970, pension payments have grown three times faster than the gross domestic product. In 1982, a year of zero growth in Italy, total state social security and welfare payments increased to 111.9 trillion lire — almost 25 percent of GDP, against 16 percent two years earlier. Last year, the state paid out 60 trillion lire in pen-

sions, a 60-percent increase since 1980.

According to a recent study by the U.S. Social Security Administration, Italy ranked first among 12 nations in 1980 in the amount of benefits single workers received — 69 percent — in relation to pre-retirement earnings. By comparison, Austria and Sweden were at 68 percent, France at 66 percent, Japan at 54 percent, West Germany at 49 percent, and the United States and the Netherlands at 44 percent.

Currently, the INPS system, which covers most of the private sector, and thus about 75 percent of Italy's retired workers, guarantees those who have worked 40 years a pension equal to 80 percent of pre-retirement salary (presently calculated on the basis of a ceiling of \$14,500) with periodic adjustments to the country's high inflation rate. Civil servants, who include government workers, police and career military officers, can get as much as 94 percent of their salary from the state when they retire. Local government workers can retire at 100 percent of salary after 40 years.

Until recently, the law allowed

Mutual Funds: A Hope For Depth, Liquidity In the Equity Markets

Spread to the ITT

ROME — A longtime wish came true for Italy's equity exchanges when Parliament recently approved a law allowing banks and other financial institutions to create Italian-based mutual funds empowered to operate on the country's securities markets.

Mutual funds are not unknown in Italy, but until the passage March 23 of the mutual funds law, those operating in the country were all foreign-based. Banco di Roma, for instance, one of Italy's major state-owned banks, has managed its Raimond fund from Luxembourg since 1971, and Luxembourg-based Interfund and Fonditalia have functioned in Italy for years.

But it is widely thought that, if Italian-based funds proliferate, as expected, they will add depth and liquidity to Italy's equity markets. Market participants have been waiting eagerly for Italian-based mutual funds since the funds were first considered two decades ago. Share prices on Milan's stock exchange advanced strongly during the first quarter on growing expectations that the mutual funds legislation would be passed. Those hopes, helped by buying of major industrial shares, took the Milan general stock index up 30 percent during the first three months of 1983.

Italian brokers and analysts were optimistic that the new funds would buttress what looks like the first sustained rise in Milan stock prices since a major bull market collapsed in mid-1981. But they added that the funds' principal effect was more likely to be felt in the medium term than during the rest of this year.

To begin with, the law requires a three-month waiting period before a fund can be established, after institutions have requested permission from the Treasury Ministry to create one. This effectively eliminates any funds' being opened for business before the beginning of the third quarter.

Secondly, some brokers speculate that most of the banks, insurance firms, and holding companies expected to establish funds have al-

ready bought most of the shares they intend to place in their funds' portfolios.

Several institutions have said they will create at least one fund each, however. Raimond Adriatica di Sicurtà, a major insurance company, has announced that it intends to create a mutual fund called "Gestiras," while the big Cassa di Risparmio delle Provincie Lombarde savings bank has said it intends to establish funds: one to deal in state securities, money market instruments and bonds, and one to operate in the stock and bond markets.

Banca Nazionale del Lavoro, the country's largest bank, is expected to create at least one Italian-based fund, and many other banks and financial holding companies are expected to follow.

But the main beneficial effect of the legislation is expected to be that the funds will tempt new listings onto the stock exchange. Many profitable Italian companies are not listed on the Milan exchange. These include a host of family-owned, small and medium-sized companies, which analysts said they hoped would launch capital increases once the additional market liquidity promised by the funds became available.

This would give market operators a greater number of issues to deal with and deepen the Milan stock market, which presently lists fewer than 200 issues. Brokers said they were almost certain that smaller companies would seek listings, giving the funds, which are required to show a minimum capital of 2 billion lire, wider opportunities to operate. If this does not happen, they acknowledged, the funds will be chasing the same few attractive shares as investors are now.

Market participants said they hoped the funds would increase the number of operators in the stock market. The country's stock exchanges are generally dominated by a few large institutions, notably the major banks and holding companies, and some observers consider the exchanges an insider's market, susceptible to speculative pressures.



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BANKING AND FINANCE IN ITALY

Continuing Wrangles Put Clouds Over Ambrosiano Bank's Successor

ROME — As lawsuits continue after the collapse of Roberto Calvi's Banco Ambrosiano, once Italy's largest private bank, even some senior officials of the seven banks that created its successor are said to be asking whether Italian authorities would not have been better advised to sell the Ambrosiano empire, despite official optimism about Nuovo Banco Ambrosiano's prospects.

Italian lawyers have begun issuing writs to the Nuovo Banco Ambrosiano on behalf of about 80 foreign banks seeking compensation for about \$250 million that the banks claim was lost through dealings with Ambrosiano's Luxembourg subsidiary, Giovanni Bazzoli, president of Nuovo Banco Ambrosiano, has said that the bank does not consider itself liable.

Another wrangle to be resolved was underlined early this month when a joint commission of Vatican and Italian officials was reported to have flown to Latin America in the investigation into liability of the Istituto per le Opere di Religione (IOR) — the Vatican bank — for up to \$1.2 billion that disappeared from Ambrosiano's Latin American subsidiaries into Panamanian holding companies allegedly under the protection of the IOR.

Further, two smaller London-based banks — Williams & Glyn's and AP Bank — are being sued by Ambrosiano for deposits they received from the Milan parent bank and lent to its foreign subsidiaries.

No wonder there is said to be grumbling in some boardrooms of the seven banks that bought the good will of the old bank for \$30 billion (for up to \$1.2 billion that disappeared from Ambrosiano's Latin American subsidiaries into Panamanian holding companies allegedly under the protection of the IOR).

The new bank has announced that it expects an operating loss of 20 billion to 30 billion lire in its first accounting period, which ends May 31.

But the new Ambrosiano's af-

fairs are probably not in as great a state of disarray as its foreign creditor banks would perhaps like it to be believed, and there is no real possibility yet of liquidating the new bank.

Depositors who fled the bank after Mr. Calvi's body was found hanging under a London bridge last June now appear to be returning.

Another positive sign is that reorganization has begun at La Centrale, the holding company that looks after Ambrosiano's interests in Italian business. It has been announced that a consortium led by IFI, the holding company of the Fiat-automotive Agnelli family, is buying a majority stake in Toro Assicurazioni, Italy's eighth-largest insurance company, in which La Centrale held a 56-percent stake.

And Nuovo Banco Ambrosiano announced last month that it had completed proposals for helping the small shareholders of the old Banco Ambrosiano who lost money when it collapsed.

Just under 40,000 small shareholders are thought to have owned about 80 percent of the old Banco Ambrosiano. The rest was owned mainly by obscure companies registered in Liechtenstein, Panama and elsewhere. Mr. Calvi controlled the bank with only a small stake, generally thought to have been 3 to 5 percent.

It remains to be seen whether the Ambrosiano affair has damaged Italy's credit rating abroad.

Some observers have criticized the foreign banks for, as some see it, foolishly continuing to deal with the old Ambrosiano after a highly critical report on it was known to have been compiled by the Bank of Italy, the central bank, in November 1978.

Overseas banks kept on trading with Ambrosiano and its subsidiaries until May 31, when the central bank sent a letter to Mr. Calvi demanding explanation of about \$1.3 billion of foreign exposure in Latin America.

The Ambrosiano board approached the IOR, asking it to honor its obligation under the "letter of comfort" it issued in September 1981, vouching for a dozen or so Panamanian front companies that had borrowed more than \$1.2 billion from three offshore subsidiaries — Banco Ambrosiano Overseas (Nassau), Ambrosiano's affiliate in Managua and Banco Ambrosiano Andino of Lima. The IOR's president, Archbishop Paul C. Marcinkus, refused to repay the Panamanian companies' borrowings.

After Mr. Calvi was found dead — it has yet to be established whether he hanged himself or was killed — the central bank set up the

pool of seven banks to provide Ambrosiano with liquidity. In August, Treasury Minister Beniamino Andreotta ordered the liquidation of Banco Ambrosiano and the bank was declared insolvent by a Milan bankruptcy court.

The demise of Ambrosiano severely curtailed the role of the private sector in Italian banking. Nuovo Banco Ambrosiano is half-owned by state-sector banks, and last fall Aniplo, the big public-sector, Milan-based savings bank, announced that it was buying another leading private-sector bank, Istituto Bancario Italiano, from Carlo Pesenti, a financier who was badly hurt financially in the Ambrosiano debacle.

Of three major private banks, that left only Banca Nazionale dell'Agricoltura still in private control. Critics say the trend to state control means that banks such as Banca Nazionale del Lavoro, whose chief shareholder is the Treasury Ministry, are overly concerned with government policy, to the possible detriment of service for private customers.

More important, perhaps, than the Ambrosiano collapse's having tilted the balance toward greater state intervention, it led the world's banks to seek new ways to protect themselves.

The result was a draft international banking supervisory code, which is expected to replace the Basel Concordat of 1975 and is being written by supervisors of the Group of 10 countries and Switzerland. The Basel Concordat is now the only full-scale, formal agreement on international banking supervision.

The Ambrosiano affair revealed a gap in the concordat concerning the question of which supervisory authority is responsible for the foreign subsidiaries, holding companies or joint ventures of banking groups.

Both the Bank of Italy and the Nuovo Banco Ambrosiano have denied responsibility for the debts of the Luxembourg subsidiary, Banco Ambrosiano Holding, put at more than \$400 million. The central bank has argued that, since only 69 percent of the subsidiary was owned by Banco Ambrosiano, the Italian shareholder was not responsible for the unit's debts and neither, therefore, was the Bank of Italy.

The new code would state clearly that, in matters of solvency, supervision is the responsibility of the central bank regulating the parent bank. In matters of liquidity it is the host country's responsibility.

— JOHN PHILLIPS

Getting at the Roots of Foreign Debt

A possible reduction in the stock of foreign debt will probably appear as another of the 'miracles' that Italy's economy regularly produces but would postpone structural adjustments. The Italian economy could probably do with one less financial 'miracle.'

By Paolo Savona

ROME — In 1982, Italy ran its third consecutive current-account deficit. To finance it, the public authorities have used only marginally their official reserves, instead raising medium- and long-term foreign loans. As a result, in 1982 foreign indebtedness was larger than the deficit itself, permitting a reduction of the short-term external exposure of domestic banks and an improvement in the term-structure of total foreign debt. However, some concerns on the recent trend in foreign indebtedness persist at the official level.

In a speech in October 1982, the governor of the Bank of Italy, Carlo Ciampi, clearly expressed this concern, and both the former Treasury Minister, Beniamino Andreotta, and the new minister, Giovanni Goria, have done so inside and outside Parliament. The main objective of such warnings has been to dampen the enthusiasm shown by Italian borrowers in bypassing domestic credit constraints and seeking access to international markets for trade and investment financing.

It is well known that the foreign assets held by official au-

thorities and private exporters, plus the stock of gold valued at market prices, still exceed the total foreign indebtedness of the country by a couple of billion dollars. The financial accounts with the rest of the world thus show that Italy still maintains a sound position in international markets and creditworthiness.

Yet, it is undeniable that since 1976 the country's foreign debt has more than doubled, from \$25 billion to \$51 billion, even if compared with trade flows, which in the same period nearly tripled, from 7 trillion to 20 trillion lire.

The persistence of a positive net external financial position, and the balance between the flows of trade and of foreign debt should preclude any substantial change in the perceptions by the international financial community regarding Italy's creditworthiness. Rather, the market seems to be concerned with the growing incidence of Italian debt service on total receipts from exports.

The governor of the Bank of Italy sought to express this uneasiness when he stated that, "in the long run, the recourse to foreign indebtedness, not unlike a normal case of a domestic firm, is just-

fied by the rate of return of the investment to be financed and/or by the capacity of the country to expand its net flows of exports."

Italian authorities have done more than merely lay down guidelines on foreign indebtedness. In 1981, they imposed a tighter coordination and control on borrowing in international markets of public bodies, state-owned firms and special credit institutions, and began close supervision of private-sector borrowing. The director-general of the Treasury, Mario Sarcinelli, has asked for a further tightening.

Moreover, as stated explicitly in the last annual report of the Bank of Italy, the monetary authorities are following a policy of lengthening the maturity of foreign debt and widening the component that comes at subsidized or floating rates. This policy was successfully implemented in 1982 and the share of medium- and long-term debt went up from 68 to about 80 percent of the total, while the overall cost of foreign indebtedness — according to provisional estimates — declined by 10 to 15 percent.

This policy has improved the long-term outlook for the balance

of payments, which remains the main concern of the monetary authorities. Italian foreign borrowing is likely to continue along a narrowly defined path, strictly controlled by the monetary authorities and directed, as indicated by Mr. Ciampi, toward "the financing of balance of payments needs and to the pegging of the lira."

After the recent realignment of the European Monetary System, the Italian balance-of-payments situation should further improve.

The final version of the 1983 budget approved by the Chamber of Deputies forecasts less recourse to foreign borrowing by Treasury than in 1982. It is likely that the foreign borrowing of private firms will also be reduced.

Because of these trends and the renewed interest of foreign investors in the Italian stock market — probably a factor behind the recent rapid recovery of the external balance — the possibility of an early reimbursement of part of Italy's foreign debt or, alternatively, an increase in official reserves with a stronger than expected lira, cannot be excluded.

Yet, given the conditions of the public budget, the problems faced



Professor Savona, writing on Italy and its foreign indebtedness dilemma, is chairman of the Advisory Council on Economic Planning and president of the Banco di Credito Industriale Sardo di Cagliari, Sardinia.

by Italian industry and the spread between domestic and foreign inflation, a possible reduction in the stock of foreign debt will probably appear as another of the "miracles" that Italy's economy regularly produces. Such a turn of events would further confuse expectations and behavior, and postpone necessary structural adjustments. The Italian economy could probably do with one less financial "miracle."

Indebtedness Abroad: Controlling Euromarket Borrowing

Special to the IHT

ROME — An informal plan that requires Italy's big state enterprises to coordinate their borrowing on the Euromarkets is helping Italian monetary authorities keep a closer watch on foreign debt expansion.

The system was established two years ago by the Treasury Ministry and the Bank of Italy to stop state corporations such as Ferrovie dello Stato, the state railways, and ENEL, the electricity utility, from entering the Euromarkets simultaneously and crowding each other out.

The monetary authorities decided to step in when it became increasingly evident that an uncoordinated approach to the credit markets by the state corporations was jeopardizing their ability to raise loans.

State borrowers now have to consult with the central bank and the Treasury before they can look for syndicated loans worth \$50 mil-

lion or more. The timing and conditions of loans are also scrutinized. Previously, borrowers went to the Treasury only for final approval after the details of syndicated credits had been all but completed.

Gross borrowing on the Euromarkets by the state companies has fallen steadily over the past two years, and Bank of Italy officials say the system of coordination has played a role in achieving this decline.

Gross borrowing in 1981 was nearly \$9 billion; in 1982 it fell to less than \$7 billion. This year Bank of Italy officials expect it to be less than \$5 billion while net borrowing will be practically nil.

International bankers have welcomed the introduction of the system. "The situation before it was established was getting very messy," said the general manager of a major U.S. bank based in Milan. "There used to be times when up to

three Italian borrowers would be in the market at the same time practically stampeding each other."

IRI, the giant state holding company, would muscle into the market looking for \$500 million only three days after another state corporation had announced it was in the market for a loan. The net result of all this was that the Italian state borrowers simply made things unnecessarily difficult for each other. The effect wasn't so much on the spreads as on the actual feasibility of the loans.

In 1980 an international banking conference in London, attended by

Mario Sarcinelli, then deputy governor of the Bank of Italy, helped bring matters to a head.

Mr. Sarcinelli, now director-general of the Treasury, was told by international bankers that they were increasingly concerned by the disruptive effects on the market of uncoordinated borrowing by the Italian state corporations, and he decided that something had to be done.

The system was set up after an exchange of letters between Beniamino Andreotta, then Treasury minister, and Carlo Ciampi, governor of the Bank of Italy. Mr. Sarcinelli was entrusted with its supervision.

The Bank of Italy plays a key advisory role in the system although final responsibility for authorizing state borrowers to raise loans rests with the Treasury. Mr. Sarcinelli still nominally in charge, but most of the day-to-day administration is in the hands of Bank of Italy officials.

The official's emphasis that the system is informal and that despite some initial hesitation the state borrowers have given their full cooperation.

Pension System: An Ever-Rising Deficit

(Continued from Preceding Page)

state employees to retire early — men after 20 years, including university and military service, and women after 15 years, including university time — and then to take other jobs. The law was changed after public attention was focused on the so-called "baby pensions scandal" by the case of a 30-year-old woman who was getting retirement pay.

The result of all this has been looming financial collapse, a prospect for which there appears to be no easy solution. Reducing the current level of benefits would be a difficult task politically. Increasing contributions — now coming from employers and employees at a 2-to-1 ratio — also seems impossible since social security payments already account for more than 24 percent of Italian labor costs.

But with more than 5 million of INPS' 13 million pensions now

going to workers categorized as disabled — at a cost of 18 trillion lire, or 4 percent of GDP, a year — union leaders are at least convinced that there is room for considerable savings without cutting legitimate benefits. In some areas of Italy today, as much as 22 percent of the population has been classified as *invalido*, or disabled, because of a combination of factors ranging from political favors and outright corruption to a badly worded and broadly interpreted law.

Most of those classified as disabled are older than 50. The Labor Ministry, however, recently ordered a stringent check of all those under 50 receiving pensions of this kind. A draft bill revising the disability classification has been stalled in parliament for almost four years.

Union experts, like Giancarlo Sestini of the Union of Italian Workers, believe that a significant

rationalization of the system could come about with a campaign against waste, a program discouraging early retirement at the creation of part-time work for older people who are not anxious to retire. The experts also say it is important to improve fiscal methods to determine exactly who Italy's real poor are in hopes of possibly reducing the "social" pension.

Last month's 1983 budget law made some attempt to cut pension costs by limiting payments to people with incomes below a certain level. But, according to Mr. Ravenna, it is essential that there be thorough organizational reform that would divert INPS of its vast pension funds into autonomous bookkeeping systems. "C paper all parties agree," the INI president said, "but when you get right down to it, there is no real inclination to act."

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Costa Rica, 170 Banks Sign Accord Reschedule \$880-Million Debt

JOSE, Costa Rica (Reuters) — Costa Rica signed a preliminary agreement with 170 private foreign banks to reschedule debts of \$880 million, the Central Bank said Monday.

The accord, the banks will grant Costa Rica a four-year grace for capital payments of \$515 million overdue or falling due this year and for \$140 million due next year. Interest payments due on the debt, estimated at \$240 million, are to be made end of the year.

help Costa Rica meet these payments the banks will grant a new credit of \$225 million to finance imports. Interest on the new loan has been set at 1.75 points above London interbank offered rate.

annual accord, requiring ratification by Costa Rica's Congress, is to be signed next month between the government and the banks, a bank communiqué said.

Union Ends Strike at Caterpillar

IRIA, Illinois (AP) — Members of the United Auto Workers union ended a strike at Caterpillar Tractor plants after voting Saturday to return to work.

The 205-day strike was the UAW's longest against a major manufacturer and involved more than 20,400 Caterpillar employees at 18 plants.

A 4-year agreement also calls for a reduction in bonus time, quarterly living adjustments, a profit-sharing plan and employee stock ownership.

Caterpillar, which lost \$180 million last year, said it needed the wage cut to stay competitive with Komatsu of Japan. Many of the concessions made by the union in the Caterpillar contract were permanent, as was the temporary concessions the union has made in its contract with the auto industry.

California Airline Halts Flights

S ANGELES (AP) — In a surprise announcement, Golden West Airlines said it was suspending flights and seeking protection under Chapter 11 of the federal bankruptcy law. Golden West, California's first commuter airline, suspended all flights Friday night. The company lost \$11 million last year.

Joe Supino, the president of Air Irvine, a charter company, said that ten West officials told him their service would resume in a week to six weeks.

Swiss Banks Raise Deposit Rates

BRICH (Reuters) — The four largest Swiss banks on Monday raised interest rates on customer time deposits to 3½ percent from 3¼ percent for all maturities from three to 12 months. The four banks are UBS, Swiss Bank Corp., Swiss Volksbank, and Union Bank of Switzerland. A spokesman for the banks said that the increase mirrors money market rates, which have been unusually high throughout the month and began to edge up again a few days ago.

Company Notes

Matheson Off's wholly-owned West German subsidiary, Deutsche Refinadora de Petroleos, has sold its 27.7-percent share in Compania Iberica Refinadora de Petroleos to the Spanish government's Instituto Nacional de Hidrocarburos. The sale price was not announced.

An offer by B.L. Britain's state-owned automaker, to end a five-week strike at its Cowley car plant over clean-up time was rejected on Monday by union shop stewards. Despite the vote, the offer will be sent without comment for a vote Tuesday by workers, a union official said.

Richardson-Vicks has agreed to acquire Vidal Sassoon, a Los Angeles-based marketer of hair care products with annual sales in excess of \$110 million, for undisclosed terms. With the acquisition, personal care products will account for almost half of Richardson-Vicks' corporate sales.

Cockerill Funds Are Near End

LIEGE, Belgium (Reuters) — Cockerill-Sambre, one of Western Europe's largest steel companies, said Monday that it had only enough money to keep going for two or three more months.

After that, new sources of capital will have to be found, "the company's president, Gerard Delmelle, told the annual shareholders meeting. "Our principal shareholder, the Belgian state, will have to take a number of decisions."

Cockerill-Sambre lost nearly 12 billion Belgian francs (\$246 million) in 1982 after losing 5.5 billion francs in 1981. Last month the Belgian steelmaker announced a program to cut 1.5 billion francs off 1983 labor costs.

Mr. Delmelle said Cockerill-Sambre should perhaps consider diversifying into new technology to stop spending money on outmoded products and invest in the future.

The company's future is being studied by an outside expert, who is due to submit his recommendations to the government by the end of June.

The company is one of many West European steel makers that have been hit by the recession.

The executive commission of the European Community has proposed a 2½ year extension of the current compulsory quota system for steel production. The quotas, which help share out the steel business, are due to expire at the end of June.

Industry ministers of the 10 EC countries, at a meeting Monday in Luxembourg, said that an extension of a continuation of the quotas "is necessary for a well balanced development of the steel market."

Otto Lamsdorff, the West German economics minister and chairman of the meeting, predicted the ministers would extend existing production curbs beyond their current June 30 expiration date.

But he said that it was less clear the ministers would go along with the European Economic Community commission's request for a continuation of the mandatory controls for a full 2½ years.

The output quotas were imposed in late 1980 to head off a disastrous price war among companies with the community.



All of these securities have been sold. This announcement appears as a matter of record only.

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BankAmerica to Buy Seafirst; Loan-Loss Protection Included

By Thomas G. Hayes
New York Times Service

LOS ANGELES — BankAmerica Corp.'s \$400-million agreement to buy Seafirst Corp. has been used to narrow BankAmerica's potential losses from loan problems that might develop at Seafirst, state of Washington's biggest bank-holding company.

"On balance, it's a good deal for BankAmerica," said Lawrence H. Winter, senior banking analyst at an investment firm. "It is fully protected against future loan losses at Washington state is a market that has generated pretty good work in the past."

The agreement, announced Saturday night, would make Seafirst Bank's principal unit, Seattle-First National Bank, a subsidiary of BankAmerica Corp. The announcement was followed immediately by Seafirst's report that it had a \$133-million loss in the first quarter, or nearly triple the amount forecast by analysts. Seafirst had a 1.3-million loss last year.

The merger, valued at \$15.40 a share in an equal combination of shares and nonvoting preferred stock, would give BankAmerica, parent of BankAmerica, its banking operations in the United States outside its home state of California. BankAmerica, based in San Francisco, is the nation's second-largest bank-holding

company, after Citicorp, and had \$122.2 billion in assets at the close of 1982. Seafirst is the 26th-largest U.S. bank-holding company.

The Seafirst takeover also would be the largest acquisition of a bank-holding company by an out-of-state bank-holding company. The transaction must be approved by the Federal Reserve Board and the Comptroller of the Currency. Shareholders of Seafirst also must approve the transaction, and a vote is expected within 60 days.

In addition, the Washington state Senate has yet to approve a bill needed for the BankAmerica-Seafirst combination. It would permit investments by out-of-state financial institutions in more than 5 percent of the equity of bank-holding companies based in Washington state. The bill is opposed by some of the state's other banking companies. The state Senate held its last scheduled meeting of the current legislative session Sunday.

Under the BankAmerica offer, Seafirst shareholders would receive \$7.70 in cash and three-tenths of a new issue of nonvoting BankAmerica preferred shares, redeemable in 1990 at \$25 each. The value is about \$15.40 a share.

Mr. Cohn said the Seafirst shareholders were "lucky" to have the BankAmerica offer. He added that without a clear agreement to shore up Seafirst's eroding capital base,

large depositors at Seattle-First might have rushed to withdraw savings from the bank after Seafirst's disclosure of its first-quarter loss.

In addition to pledging \$250 million in exchange for Seafirst's 16.2 million shares outstanding, BankAmerica also agreed to prop up Seattle-First with \$150 million in fresh capital after the merger was completed.

That is critical for Seafirst. The first-quarter loss pushed its capital to \$223 million, or 3.4 percent of its \$9.6 billion in assets. Bank regulators vary in the level of equity that they tolerate for banks but a figure below 5 percent is considered precarious.

Still, Seafirst was in no danger of failing, Richard P. Cooley, its chairman and chief executive, said after Seafirst's annual meeting Thursday. Banks around the country had provided it with a \$1.5-billion line of credit to strengthen its liquidity base in case of a run on deposits.

Mr. Cohn said BankAmerica most likely had forced Seafirst to write off a larger portion of its potential loan losses before the acquisition, a step that resulted in Seafirst's \$133-million first-quarter loss.

Mr. Cooley said in an interview Sunday, however, that "we would have never done that."

VTR Move Questioned

(Continued from Page 13)

"reduction to Europe," said the Thomson executive.

By the end of this year, Thomson will begin manufacturing recorders at a Thomson plant in France, reaching an annual output of one million units at a cost of about \$100 million, the spokesman said. Output at an assembly unit in Berlin, in which Thomson recently bought the controlling interest through its acquisition of Jelfunkin, the West German electronics company, will be doubled to 400,000 units annually.

The technology and the electronics parts for the recorders will come from Victor, although Thomson emphasized that "buying components from the Japanese is only for a limited period, and the goal is to use 75 percent of all the components to be European."

Challenging this version, Philips said Monday: "We cannot see the Thomson decision to make recorders on the VHS system as anything else but a decision simply to emulate a Japanese product."

A Philips spokesman added that his company and Thomson were still talking about cooperating in developing a common 8-mm standard for a new generation of video equipment, including VTRs and cameras being developed by Philips and five Japanese companies.

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Sotheby to Attack Suitors' Reputations

By R. W. Apple Jr.

my brains out if they succeed," he was promptly reprimanded by a government agency.

Wednesday, May 4...and we don't expect to extend it. Sotheby's slowness in replying suggests that they are in some disarray over there."

But Mr. Cogan expressed confidence that the British government would not impede the bid, and legal experts said they considered the appeal in the Office of Fair Trading to be a long shot at best.

Sotheby's key argument was expected to be that Mr. Cogan, who is 45 years old, was unsuitable to run Sotheby's because he had consented in an out-of-court settlement with the SEC to a lifetime ban on the management of discretionary brokerage accounts. He was charged with the alleged misuse of clients' funds in a 1969 case involving the underwriting of a new issue for Seaboard Corp. and in another case involving North American Acceptance Corp.

"It was a great mistake, in retrospect, signing those SEC consents," Mr. Cogan said. "Since then, civil cases on the same matters have cleared me completely. But to save enormous costs I did sign them without any admission of guilt on my part."

In 1969, Mr. Cogan was the senior partner of Cogan, Berlind, Weill & Levitt, which, after several permutations, became Shearson/American Express. He later left the securities industry for General Felt.

(Continued from Page 13)

mies and many small concerns do manufacture in the corridor.

"Locating here minimizes risk when you are trying to build a European research base," said Dick Davies, software-engineering manager for Digital Equipment Corp. in Britain, which has chosen Reading as a major development site. "The prime location for software talent is in this part of Britain."

One reason is that ICL, Britain's largest home-grown computer company, grew up in nearby Bracknell. The corridor is also home to several major government research centers, including those in such technological fields as aerospace, weaponry and nuclear physics.

Farther west, the resource pool is fed by the attraction that the region holds as a beautiful and convenient place to live. "The company is here because I live here," said Peter White, founder of Cadre Systems, which makes electronic equipment for printers in Cirencester at the southeast edge of the Cotswolds.

Swindon, a former railroad center 80 miles from London, has been the most active recruiter of high-technology business. "Far too many local authorities think of becoming Silicon Valley without any idea of what it is," said Douglas Smith, the man whom the town hired to attract new jobs.

One company that has chosen Swindon, Intel Corp. of the United States, sees resemblances between the town and Hillsboro, Oregon, the community where Intel set up new operations after it had decided that Silicon Valley was becoming too crowded and expensive for comfort. "And just as in Oregon, we are anxious to see spin-off industries spring up here," said David Mayes, Intel's marketing manager for northern Europe.

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